

Thank you very much for allowing my voice to be heard by this committee. I am truly honoured and humbled to be here with you all today.

My name is Clayton Achen, I'm a Founding Partner at Achen Henderson CPAs in Calgary. Given my practice area, my primary interest with respect to Bill C-97 is tax, specifically the taxation of small businesses and their owners, but I'm primarily interested in what is missing from Bill C-97.

My firm's day-to-day work as a Chartered Professional Accounting firm is to work directly with middle-class small business families. This has given us better perspective than most to see how hard it is for Canadian entrepreneurs to earn a living. We also see how easy it has become for our government to take those hard-earned dollars away; sometimes under the guise of "fairness", a clever word which does nothing to consider the risks and ultimate hardships that an entrepreneur endures.

I'll spend the next few minutes talking about some of their more recent challenges including economic challenges, increases to tax, increased compliance burdens and uncertainty, and challenges in dealing with the CRA and navigating our tax system. I'll then make some brief comments on Canada's desperate need for a modern tax system and close with my thoughts on a few business-related items that are contained in Bill C-97.

It cannot be understated how complicated our tax system has become in the last 50 years, which was the last time a comprehensive review was undertaken. Our last three budgets have heaped on more and more layers of complication and burdens of compliance on to Canadian small businesses. While I am grateful that the attack on private corporations and their shareholders appears to have subsided in 2019, I am disappointed that Bill C-97 contains nearly nothing to help them.

What we've seen, particularly in my home province of Alberta, is that entrepreneurs have faced tremendous adversity over the last 5 years... but particularly in the last 3:

- In Alberta - some small businesses have managed to survive a long and sustained economic downturn with very little help from our governments. A lot have simply closed their doors and are out of work...
- For all Canadian small businesses - the cost of compliance has increased dramatically as a result of changes to the inter-corporate dividend rules, Tax on Split Income, the specified corporate income / association rules, changes to family trust reporting, and new penalties for saving too much in your business, regardless of the reason.
- Many wealthier clients have increased their risk tolerance with regards to tax planning strategies and reduced their tolerance to economic risks. Many wealthier clients are shifting their wealth out of Canada.

Most of this is a direct side-effect of the offensive and ill-conceived attempt at tax reform for private corporations and their shareholders that was announced on July 18, 2017.

- Moreover, all companies, including small businesses, are now shouldering significant CPP premium increases for the next 7-years (up to an extra \$845/employee by 2025).
- According to research conducted by the CFIB, Canadian small businesses are now being asked to shoulder nearly half the Federal Carbon Tax take (which increases the cost of nearly everything, and I mean everything) while receiving disproportionately small rebates.

In many cases, small businesses have tried to pass these costs onto consumers in order to remain viable, in many cases they simply can't. The result is corporate inequity, meaning smaller companies are simply unable to compete with large corporations and multinationals who are better positioned or better equipped to shoulder these additional tax and compliance burdens.

I share these insights today not to complain, but rather to highlight that there have been real, rapid and sustained challenges for middle-class small business owners across Canada and Bill C-97 offers very little in the way of assistance or stimulus.

The next issue is CRA's service levels. I can confirm the substance of the 2017 Auditor General's report, that it is very difficult to reach the CRA by phone, and even more difficult to get a complete and correct answer. We still deal with this daily. At Achen Henderson we have been forced to add this to our service levels and have elected to do so at no additional cost to our clients.

While I am thankful for my newfound love of chamber music and encouraged that the government recognizes the problem, we must ask ourselves if the measures in Bill C-97 are the correct approach.

While advances have been made by the CRA to be more accessible and user friendly online, it confuses us how the CRA requires 5 times the staff per capita to administer our tax system than the IRS does, with more hiring announced in the 2019 federal budget.

Culture and Tone at the Top: *The CRA's 3 responsibilities are:*

1. *Review of tax returns*
2. *Reduce participation in the underground economy*
3. *Use responsible enforcement*

There is no mention of serving taxpayers or helping them navigate the tax system in CRA's stated responsibilities. This is a cultural issue and it is entirely unsurprising that Canadian taxpayers are being under-served by the CRA.

<https://www.canada.ca/en/revenue-agency/services/tax/individuals/educational-programs/learning-about-taxes/learning-material/module-3-your-rights-responsibilities/canada-revenue-agencys-responsibilities.html>

Based on our extensive experience dealing with the CRA and helping many organizations who have experienced similar challenges, we have come to

believe the CRA's issues are cultural in nature. Defective cultures always result in operational bottlenecks. These bottlenecks are magnified by a tax system that is far too complex for the average CRA agent or taxpayer to navigate... which is further magnified by a lack of and/or inadequate professional training.

Next, instead of taking steps towards modernizing our tax system to make it more transparent, competitive, and easy to comply with and administer, Bill C-97 is a continuation by our Government to use taxation to “pick winners” with tax breaks in various economic areas or industries. Furthermore, C-97 does nearly nothing to address tax competitiveness with the United States. Instead, the Bill stretches the fabric of our tax act even thinner, mending holes where the fabric breaks with more patches resulting in impossible to comply with and administer legislation.

“A tax system is fundamental to creating a competitive environment and a fair society. Canada needs a 21st-century tax system: a simple, predictable, fair, efficient and transparent tax system with internationally competitive tax rates, where everyone pays their share so that all Canadians prosper. Yet our current system remains mired in the past. Canada has not undertaken a holistic review since the Carter Commission in the mid-1960s.

Since then, all aspects of the domestic and global economies have changed dramatically, while incremental, ad hoc changes have obscured our tax system’s underlying framework and its integrity. Canada’s businesses, people and economy are suffering competitive setbacks as a result.”

Canada’s Tax System, What’s so Wrong and Why it Matters, CPA Canada, 2018

<https://www.cpacanada.ca/en/the-cpa-profession/about-cpa-canada/key-activities/public-policy-government-relations/policy-advocacy/cpa-canada-tax-review-initiative/canadas-tax-system>

Like so many others, including this committee as I understand it, I strongly believe Canada needs a modern tax system, which starts with a comprehensive review of the current one. So what might a tax system review look like? We think it should be comprehensive, collaborative, transparent and independent. It should be run by a working group of industry experts, academics and government bureaucrats and include heavy consultations with taxpayers of all stripes throughout the process.

“For optimal results, CPA Canada recommends the tax system review should be designed to be:

- **comprehensive in scope**, putting all aspects of tax policy and administration and how they interact on the table in order to identify broad, systemic measures to improve the tax system for the benefit of Canadians, their businesses and our economy overall
- conducted by an **independent expert panel** appointed by the Minister of Finance and comprising a mix of senior members of the tax, legal, business, economics and academic communities, and representatives of key stakeholders
- governed by **clear terms of reference** that set out a broad mandate for a **transparent process** of analysis, **public consultation** and review within a **reasonable timeframe** and with access to adequate resources for research and analysis

...

We then recommend how a review panel could deliver opportunities to make a difference by focusing on areas that ultimately promote sustainable growth and prosperity for Canada and Canadians. We suggest areas where a review panel could investigate and develop practical recommendations, with examples under each of these themes:

1. Make the tax system simpler, **fairer, more efficient and competitive** so that all Canadians benefit.
2. **Simplify** and modernize tax policy.
3. Support changes to the CRA and tax administration that **ease compliance for taxpayers.**”

The best way forward: Designing a Tax review for Canada – CPA Canada, 2018

<https://www.cpacanada.ca/en/the-cpa-profession/about-cpa-canada/key-activities/public-policy-government-relations/policy-advocacy/cpa-canada-tax-review-initiative/designing-a-tax-review-in-canada>

It should have clear mandates – such as “to evaluate the efficiency of the tax mix in Canada” and “to simplify the tax system, making it easier to comply with and administer” and “to ensure Canada’s tax system is competitive”. New Zealand’s panel on recent tax reforms focused on the principle of “fairness”, particularly horizontal equity.

It’s not all bad. There are some welcome patches in the Bill, such as the improvements to the RDSP rules, and the specified corporate income rules, but I can’t help but wonder how many more holes need to be patched until we consider modernizing our tax system.

The patch to the SR&ED program is a step in the right direction. It undoubtedly makes the program more accessible to certain CCPCs. For them, this should help to tip the balance between compliance costs vs.

benefits and increased support. Unfortunately, these changes do not address the administration problems in the SR&ED program and they only impact a very small portion of private companies in Canada.

What Achen Henderson would like to see is a review of how the SR&ED program is administered, including an analysis of the initial application denial rate compared to subsequent appeal success rate, as well as the review and audit rates compared to successful claim denials.

The cost of application and follow up compliance relating to responding to review and audit challenges is very prohibitive and prevents many companies from taking advantage of the program's benefits in the first place.

While the Accelerated Investment Incentive will be helpful to certain private companies, namely those who are doing well and/or those who are able to upgrade or expand, the full expensing of M&P Equipment, Clean Energy Equipment, and Electric Vehicles seem like boutique benefits that will only help certain private companies. We are disappointed that the accelerated CCA measures are temporary in nature.

In closing, entrepreneurs have endured a lot in these last few years. Many continue to struggle with uncertainty and excessive tax complexity, and have received very little from their government in return. While Bill C-97 doesn't ask them to shoulder much more, it doesn't offer much in the way of assistance or stimulus. Next, We have seen improvements in the CRA's online offerings but we have experienced very little improvement in hold time or service levels, and we question if Bill C-97's approach to resolving these problems is the correct one. Next, Bill C-97 is a missed opportunity to initiate a comprehensive review of our tax system with the goals of modernization and simplification at its core. Lastly, the accelerated CCA measures in C-97 are targeted at specific industries, are temporary in nature, and miss the mark on improving tax competitiveness with the United States.

Thank you, once again, for inviting me to appear today. I'd be happy to take your questions.