



RESPONSE TO PETITION

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PETITION No.: 421-01489

BY: MR. SCHMALE (HALIBURTON-KAWARTHA LAKES- BROCK)

DATE: JUNE 9, 2017

PRINT NAME OF SIGNATORY: THE HONOURABLE GINETTE PETITPAS TAYLOR

Response by the Minister of Finance

SIGNATURE

Minister or Parliamentary Secretary

SUBJECT

Tax system

ORIGINAL TEXT

REPLY

The Government of Canada recognizes the important role that all small businesses play in creating jobs, supporting the economy and strengthening the middle class. The Government is committed to listening and discussing the challenges faced by entrepreneurs and small business owners.

The Income Tax Act contains long-standing rules on the small business deduction and small business tax rate. The policy intent of the small business deduction is to allow small businesses to retain and reinvest more of their corporate profits, thereby expanding their active businesses and contributing to economic growth and job creation.

The income tax rules provide that a business is a specified investment business (and not an active business) if the principal purpose of that business is to earn income from, among other things, the rental of real property. The principal purpose of a business is a question of fact. A relieving rule provides that a business with the principal purpose of earning income from property will nonetheless be excluded from the definition of a specified investment business if that business employs more than five full-time employees.

The Government announced in Budget 2016 that no change would be made to the active versus investment business rules. Following this announcement, the Government met with representatives of the campground industry to ensure a proper appreciation of the announcement and to hear the views of campground owners.

The Government is committed to ensuring that business owners have all the necessary information to determine whether they are eligible for the small business deduction. In August 2016, a statement was issued to help clarify the eligibility requirements for campgrounds to claim the small business deduction. The statement can be found at www.cra-arc.gc.ca/nwsrm/stmnt/2016/st160823-eng.html.

Where a campground owner has been assessed and believes that its business has been incorrectly assessed as a specified investment business, the campground owner may object to the assessment through the Canada Revenue Agency's Appeals Branch, then the Tax Court of Canada.

The specified investment business rules ensure, in part, that those carrying on an active business can qualify for the small business deduction (irrespective of the number of employees). Consequently, the Government does not perceive the need for any legislative change to ensure that the appropriate policy result is achieved.

The Government remains committed to helping small businesses understand their tax obligations and will continue to work with the sector and provide the right information and tools for small businesses such as campgrounds to determine whether they would be eligible for the small business deduction.