Submission for the pre-budget consultations in advance of the 2023 federal budget

The Conference for Advanced Life Underwriting (CALU)

September 2022

Summary

That the federal government:

Recommendation 1: Support the successful **transition of small businesses to family members** by ensuring that any changes to section 84.1 of the *Income Tax Act* continue to facilitate genuine intergenerational transfers of shares while preventing tax avoidance that undermines the equity of Canada's tax system.

Recommendation 2: Update and make more transparent the factors used to establish the **RRIF minimum payment** to ensure that Canadians contributing to RRSPs have sufficient retirement income throughout their expected lifetimes, and introduce a process for the regular review of the RRIF minimum payout formula to ensure it continues to meet the income needs of older retirees.

Recommendation 3: Provide **dental care and prescription drug plans** only to Canadians who currently do not have any coverage (i.e., gap filling approach) and in designing those plans leave workplace plans intact and not incentivize employers to drop their existing coverages in favour of federal plans.

Who we are

CALU is the only national professional organization dedicated to advanced planning issues related to life and group insurance, tax and succession planning and financial management. Our industry-leading members include insurance and financial advisors as well as accounting, tax, legal and actuarial experts. Along with our partner organization, Advocis, we speak for more than 17,000 insurance and financial advisors in every part of Canada to grow and preserve the financial well-being of Canadians and family businesses.

We are pleased to make the following three recommendations on tax and fiscal measures that the federal government can implement in Budget 2023 to enhance the social safety net and tax equity among Canadians and make Canada a more prosperous country.

Supporting small business owners

Small businesses are a major contributor to the Canadian economy. According to a recent report by Statistics Canada, at the end of 2020 there were over 1.2 million employer businesses in Canada, of which almost 98% were small businesses with less than 100 employees. Small businesses employ 7.7 million Canadians representing almost 70% of the private labour workforce.

As noted by the Conference Board of Canada the impact of family-owned enterprises stretches beyond their contribution to GDP and employment and speaks to their role in supply chains, labour markets, and in communities themselves. These views were echoed by recent comments by the Deputy Prime Minister and Minister of Finance, who stated:

> *"I really believe that small businesses—small, entrepreneurial family-run businesses—are the heart of our communities, they are the heart of our country, they are the heart of our economy."(Source: August 5, 2022 Speech in Grand Pre Nova Scotia).*

We agree with this view and believe that small businesses are the backbone of the Canadian economy. However, many small business owners, now at or nearing retirement age, have been worn down by the stresses of the past few years and are accelerating their plans to retire. Fortunately, many owners have children working in their businesses, who have been groomed and are ready to assume control of the operations.

Until 2021, rules in the *Income Tax Act* (section 84.1) were a major impediment to a successful transition of these businesses within a family. The governing rules at the time could result in significantly more taxes being paid by a business owner on the sale of shares to family members, than would be the case if those shares were sold to an arm's length purchaser.

This had the effect of discouraging the transfer of a private business to the next generation of family members, at a time when many business owners were considering retiring and realizing on the value of their business. Business owners were often faced with a difficult decision: to sell their business outside of the family in order to preserve more after-tax proceeds to fund their retirement, or to receive less money in order to pass on their business on to their children.

CALU was therefore pleased when private member Bill C-208, enacted in June 2021, facilitated intergenerational business transfers by creating a limited exception to section 84.1 in cases where the transfer is made to a child or grandchild of the business owner and certain other criteria have been satisfied.

However, the Department of Finance (Finance Canada) expressed concerns that the exception provided by Bill C-208 is too broad and could result in certain tax avoidance transactions. It formalized these concerns by announcing in July 2021 that it planned to amend section 84.1 to restrict such opportunities for tax avoidance, while ensuring such amendments would not be retroactive in effect.

Earlier this year Finance Canada engaged in a public consultation relating to Bill C-208 with amendments to section 84.1 expected in the fall of 2022. CALU actively participated is this consultation process much like it has in past consultation exercises relating to section 84.1 and the intergenerational transfer of shares.

Recommendation 1: That the government support the successful transition of small businesses to family members by ensuring that any changes to section 84.1 of the *Income Tax Act* continue to facilitate genuine intergenerational transfers of shares while preventing tax avoidance that undermines the equity of Canada's tax system.

Enhancing Canada's retirement system

Recent federal governments have taken important steps to improve the retirement income system by introducing the Tax-Free Savings Account (TFSA), modifying the Canada Pension Plan, increasing Old Age Security benefits and introducing new forms of income payout options for certain registered retirement income plans.

However, current economic, employment and demographic trends are challenging certain aspects of Canada's retirement income system, particularly for the majority of Canadians who convert their Registered Retirement Savings Plans (RRSPs) into Registered Retirement Income Funds (RRIFs). This is causing seniors to fear that they won't have sufficient retirement income later in life due to tax rules that force them to take money out of their RRIF by age 71 without the financial need to do so.

Moreover, some seniors found that when they really needed the money, their funds had been significantly diminished due to higher taxes payable on the withdrawn funds and loss of tax sheltering within the RRIF. Mandatory RRIF withdrawals can actually push some seniors into a higher tax bracket and result in the loss of government benefits such as the Guaranteed Income Supplement (GIS) benefit.

CALU shares the view of many seniors that current RRIF rules do not reflect the fact that Canadians are working longer than ever before, and the length of retirement is generally longer than in the past due to increasing life expectancy. When they are forced to draw down their tax-deferred savings, they risk outliving their funds, and that problem can be further compounded by lower interest rates.

CALU was therefore pleased that in June 2022 the House of Commons recognized this problem and adopted Kirsty Duncan's motion asking the government to undertake a study examining population aging, longevity, interest rates and RRIFs, and report its findings and recommendations to the House within 12 months.

Recommendation 2: That the federal government update and make more transparent the factors used to establish the RRIF minimum payment to ensure that Canadians contributing to RRSPs have sufficient retirement income throughout their expected lifetimes, and introduce a process for the regular review of the RRIF minimum payout formula to ensure it continues to meet the income needs of older retirees.

Strengthening Canada's health care system

In Budget 2022, the federal government announced its intention to launch a new dental care program for low-income Canadians by 2025, and committed to continuing its ongoing work towards a universal national pharmacare program. In September 2022, it announced the first phase of the dental plan whereby direct funding will be provided to the parents/guardians of children under 12 who do not have access to dental insurance in 2022, while a comprehensive national dental care program is developed and implemented by 2025.

CALU acknowledges the rationale for these initiatives, or put another way, for the problems that need to be addressed. First, too many Canadians do not have access to the prescription drugs they need because the cost of those drugs is out of their reach. In fact, Canadians pay some of the highest prescription drug costs among Organization for Economic Co-operation and Development (OECD) countries and in the world. Moreover, the demand for prescription drugs is expected to increase with the aging of the Canadian population.

Similarly, the cost of dental care is preventing some Canadians from accessing the services they need. According to the Canadian Dental Association, more than six million Canadians each year avoid visiting the dentist for this reason. This is especially true for low-income families. Poor oral health also strains other parts of the health care system, whether through hospital visits for dental emergencies, or by causing or exacerbating other health problems.

We fully agree that Canadians should not have to choose between receiving needed health services and putting food on the table. **As it has already begun to do with the first phase of the dental plan, we believe the federal government should help those who need it, notably those who do not have any prescription or dental coverage, whether from a private plan or provincial/territorial plan.**

That said, it is important to recognize that the majority of Canadians already have access to prescription drugs and dental care through workplace plans. According to the Canadian Life & Health Insurance Association (CLHIA) 26 million Canadians have supplementary health insurance including prescription drug coverage, and that of the nearly 70 percent of Canadians with dental coverage, over 85 percent are covered through a private insurance plan. These individuals are very well served by those prescription drug and dental plans with coverage that generally exceeds provincial/territorial plans. CALU therefore believes that **the federal government should limit publicly funded prescription drug and dental coverage to those who need it without affecting existing workplace programs.**

Moreover, the comprehensive national dental care program, and eventually also the pharmacare initiative, **should be designed to avoid unintended consequences, particularly incentivizing employers in any way to drop their existing plans in favour of a federal plan.** This is a particularly important issue for small businesses –

the lifeblood of our membership and the Canadian economy – who are more challenged than larger businesses in providing flexible and competitive group benefits for their employees.

The prospect of these federal plans has already had an impact as some employers looking to redesign their benefits plans are in a holding pattern until they hear more details about the government plans. Ultimately, employers dropping their existing coverage in favour of a federal plan would leave many Canadians worse off with less coverage than they have today.

The federal government has set aside $5.3 billion over five years to fully implement the dental care program. However, the Parliamentary Budget Officer has estimated the cost of this program to be nearly double that, at $9 billion. With the government already expected to pay many more billions for this program than originally anticipated, it is therefore even more important that the new government program not create any incentive for employers to drop the dental portion of their workplace benefit plans and further drive up the total cost of the program to the public purse.

Recommendation 3: That the government provide dental care and prescription drug plans only to Canadians who currently do not have any coverage (i.e., gap filling approach) and in designing those plans leave workplace plans intact and not incentivize employers to drop their existing coverages in favour of federal plans.

Conclusion

We thank the members of the House of Commons Standing Committee on Finance for the opportunity to present our priorities for the upcoming federal budget. Representatives from CALU would be pleased to appear as witnesses to discuss our recommendations in more detail.

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