Submission to the Department of Finance for “Let’s Talk Budget 2023”

The Conference for Advanced Life Underwriting (CALU)

February 2023

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: Review and make changes to the existing RRSP contribution rules and the RRIF minimum payment rules to ensure that Canadians have sufficient retirement income throughout their expected lifetimes by:

- Allowing unused RRSP contribution room to be annually indexed to partially compensate for the loss of tax-deferred savings due to the deferral of contributions as a result of other financial priorities.
- In combination with changes to RRIF rules discussed below, permitting RRSP contributions to continue past age 71.
- Modifying the RRIF payout requirements in the following ways:
    - Defer immediately or over time the requirement to convert an RRSP to a RRIF to age 75.
    - Make more transparent the factors used to establish the RRIF minimum payment formula 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.
    - Reduce the RRIF minimum payout formula to allow more RRIF funds to remain tax-sheltered over a RRIF holder's lifetime.
    - Similar to the result achieved by purchasing an Advanced Life Deferred Annuity (ALDA), allow RRIF holders to exclude up to $160,000 (indexed) from the application of the RRIF minimum payment formula until the RRIF holder attains age 85.

Recommendation 3: To contain costs and ensure wider availability of employer sponsored dental care programs:

- Provide dental care plans only to Canadians who currently do not have any coverage (i.e., gap filling approach).
- In designing those plans, leave workplace plans intact and not incentivize employers to drop their existing coverages in favour of federal programs.
- Provide a 35 percent refundable tax credit in respect of the cost of dental care programs for employees of qualifying small businesses.

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 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 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 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).*

CALU wholeheartedly supports these comments. 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. In fact, a January 2023 study by the Canadian Federation of Business (CFIB) indicates that over three-quarters of small business owners plan to retire in the next decade. 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) subsequently expressed the concern that the exception provided by Bill C-208 was 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.

Last year, Finance Canada consulted with stakeholders to seek views on how the existing rules could be strengthened to protect the integrity of the tax system while continuing to facilitate genuine intergenerational business transfers. CALU actively participated is this consultation process much like it has in past consultation exercises relating to section 84.1 and is now awaiting draft legislation or other measures from the federal government.

Recommendation 1: That the federal 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. First, many Canadians are experiencing difficulties saving sufficient funds in their Registered Retirement Savings Plan (RRSP) due to competing needs for their financial resources early in their working lives. They often cannot take advantage of their RRSP contribution room until closer to their retirement and therefore cannot fully benefit from the tax-free investing within an RRSP. As well, the requirement to withdraw all funds from an RRSP or convert it to a Registered Retirement Income Fund (RRIF) by age 71 means that those who may out of necessity continue to work later in life are not able to continue to benefit from tax deductible contributions to an RRSP.

The second challenge affects the majority of Canadians who choose to convert their RRSPs into RRIFs, rather than withdraw the funds. Specifically, many of those seniors find themselves adversely impacted by the RRIF minimum payout rules that force them to take money out of their RRIF even if there is no financial need to do so. This results in their retirement funds being 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 the existing RRSP and 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 cannot fully take advantage of tax-free compounding within an RRSP and are forced to draw down RRIF 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 part of 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. We believe this study should consider options relating to both RRSPs and RRIFs to ensure Canadians have sufficient income later in life, and also create greater transparency in the factors which are used to determine the RRIF minimum payment formula to facilitate future updating.

Recommendation 2: That the federal government review and make changes to the existing RRSP contribution rules and the RRIF minimum payment rules to ensure that Canadians have sufficient retirement income throughout their expected lifetimes by:

- **Allowing unused RRSP contribution room to be annually indexed to partially compensate for the loss of tax-deferred savings due to the deferral of contributions as a result of other financial priorities.**
- **In combination with changes to RRIF rules discussed below, permitting RRSP contributions to continue past age 71.**
- **Modifying the RRIF payout requirements in the following ways:**
    - **Defer immediately or over time the requirement to convert an RRSP to a RRIF to age 75.**
    - **Make more transparent the factors used to establish the RRIF minimum payment formula 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.**
    - **Reduce the RRIF minimum payout formula to allow more RRIF funds to remain tax-sheltered over a RRIF holder's lifetime.**
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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. In September 2022, it announced the first phase of this plan whereby direct funding will be provided to the parents/guardians of children under 12 who do not have access to dental insurance, while a comprehensive national dental care program is developed and implemented by 2025.

CALU acknowledges the rationale for this initiative and the problem that needs to be addressed. Put simply, 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 dental 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 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 dental care through workplace plans. According to the Canadian Life & Health Insurance Association (CLHIA), over 85 percent of Canadians who have dental coverage are covered through a private insurance plan. That's more than 16 million Canadians. These individuals are very well served by those dental plans with coverage that generally exceeds provincial/territorial plans. CALU therefore believes that **the federal government should limit publicly funded dental coverage to those who need it without affecting existing workplace programs.**

Moreover, the comprehensive national dental care program **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. Small businesses are typically private corporations which pay at a lower rate than larger corporations. The after-tax cost of providing employee health benefits (including dental benefits) can therefore be higher than for larger private and public corporations, which may further discourage them from offering dental benefits.

Therefore, to encourage small businesses to maintain and/or implement dental programs for their employees, CALU recommends that the government implement a 35 percent refundable tax credit relating to the cost of employee dental coverage offered by qualifying small businesses. This would not only relieve the federal government of the costs associated with providing dental coverage to employees who are covered under their employer's plan, but will also likely result in those employees receiving better dental coverage than what will be available under the government program.

We also note that the federal government has announced that $5.3 billion will be available 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 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: To contain costs and ensure wider availability of employer sponsored dental care programs, that the federal government:

- **Provide dental care plans only to Canadians who currently do not have any coverage (i.e., gap filling approach).**
- **In designing those plans, leave workplace plans intact and not incentivize employers to drop their existing coverages in favour of federal programs.**
- **Provide a 35 percent refundable tax credit in respect of the cost of dental care programs for employees of qualifying small businesses.**

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