Submission for the pre-budget consultations in advance of the 2024 federal budget

The Conference for Advanced Life Underwriting (CALU)

August 2023

List of Recommendations

That the federal government:

Recommendation 1: Support the successful transition of small businesses to family members by ensuring the final legislation amending section 84.1 of the *Income Tax Act* is expeditiously introduced and enacted before the end of 2023.

Recommendation 2: Closely monitor the recent reduction in the number of self-employed individuals in Canada and take any necessary action to ensure this important pillar of employment and economic growth for the country continues to prosper.

Recommendation 3:

3.1 Allow unused RRSP contribution room to be annually indexed to partially compensate for the loss of tax deferred savings due to the deferral of contributions resulting from other financial priorities.

3.2 In combination with changes to RRIF rules discussed below, permit RRSP contributions to continue past age 71.

3.3 Modify RRIF payout requirements in the following ways:

- 3.3.1 Reduce the minimum payout formula to allow more funds to remain tax-sheltered over a RRIF holder’s lifetime.
- 3.3.2 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.
- 3.3.3 Defer immediately or over time the requirement to convert an RRSP to a RRIF to age 75.

3.4 Make more publicly transparent the factors used to establish the RRIF minimum payment formula and establish a regular process for reviewing the RRIF minimum payout formula to ensure it continues to meet the income needs of older retirees.

Recommendation 4: Provide a 35 percent refundable tax credit in respect of the cost of dental care programs for employees of qualifying small businesses. The credit should be designed to support small businesses with employees earning less than the income coverage limits under the CDCP, among other eligibility criteria.

Who we are

CALU is Canada's national association for leaders in the life insurance and financial advisory industry. 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 offer the following recommendations on tax and other measures for consideration in Budget 2024.

Supporting small business owners

CALU believes that small businesses are the backbone of Canada's economy. In this context, we offer two recommendations to better support specific segments of this key sector, namely family businesses and self-employed individuals, so they continue to grow their significant contribution to GDP and employment in Canada.

1) Intergenerational business transfers

First, CALU is pleased that Budget 2023 included draft legislation governing the intergenerational transfer of shares in small businesses (section 84.1 of the Income Tax Act). We believe Finance Canada has taken a measured approach to facilitating the transfer of shares in small businesses to the next generation of family owners while restricting opportunities for tax avoidance. While we have technical concerns with the legislation, we expect a number will be addressed in the final legislation or through technical clarifications issued by the Canada Revenue Agency.

Given that this legislation will apply to share transfers taking place after 2023, we believe there is some urgency in releasing the final legislation to provide small business owners greater certainty in planning for their business succession.

Recommendation 1: That the government support the successful transition of small businesses to family members by ensuring the final legislation amending section 84.1 of the *Income Tax Act* is expeditiously introduced and enacted before the end of 2023.

2) Self-employed individuals

Second, we see the potential need for new tax and fiscal measures to better support the growth and financial well-being of self-employed individuals. These individuals play an important role in the Canadian economy and are often incubators for the growth of larger businesses generating additional employment.

Unfortunately, recent data from Statistics Canada indicates the number of self-employed Canadians has dropped from a peak of approximately 2.84 million in May 2018 to 2.63 million in May 2023, a decline of approximately 7.4 percent. Over the same period, self-employed individuals as a percentage of the entire labour force decreased from 15.3 percent to 13.3 percent. As a result, the self-employed account for the smallest share of all workers in more than forty years.

While the cause of this decline is not clear, we believe it is an unwelcome development as the number of self-employed is one indicator of the growth and formation of new businesses in Canada.

Recommendation 2: That the government closely monitor the recent reduction in the number of self-employed individuals in Canada and take any necessary action to ensure this important pillar of employment and economic growth for the country continues to prosper.

Enhancing Canada's retirement system

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). Some seniors consequently fear they won't have sufficient retirement income later in life due to tax rules requiring them to withdraw money from their RRIF by age 71 without the financial need to do so.

Moreover, some seniors in financial need are finding their funds significantly diminished due to taxes payable on the withdrawn funds and loss of tax sheltering within the RRIF. Mandatory RRIF withdrawals can also push some seniors into a higher tax bracket and result in the loss of government benefits such as the Guaranteed Income Supplement (GIS) benefit.

In June 2022 the House of Commons recognized this problem and adopted Private Member's Motion M-45 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.

In response to this motion, Finance Canada consulted with stakeholder groups (including CALU) resulting in the tabling of a report in Parliament in June 2023. While the report does not make specific recommendations, it contains a wealth of information that should be helpful to the government in determining how RRIF rules can best meet the needs of retirees.

For example, the RRIF Report indicates that:

1. The vast majority of RRSP holders wait to age 72 to convert their RRSP to a RRIF and over 60 percent of those RRIF holders only take the minimum.
2. About half of RRIF holders earning between $50,000 - $100,000 are only taking minimum RRIF withdrawals.
3. The average retirement age for Canadians has been increasing since 2007, particularly for the self-employed, and a growing number of people continue to work into their 70's.
4. Life expectancies continue to increase, with a growing number of retirees living well into their 90's.

Given the results of this report and feedback from our members and their aging clients, we are recommending the following changes to RRSP and RRIF rules.

Recommendation 3:

That the federal government:

3.1 Allow unused RRSP contribution room to be annually indexed to partially compensate for the loss of tax deferred savings due to the deferral of contributions resulting from other financial priorities.

3.2 In combination with changes to RRIF rules discussed below, permit RRSP contributions to continue past age 71.

3.3 Modify RRIF payout requirements in the following ways:

- **3.3.1 Reduce the minimum payout formula to allow more funds to remain tax-sheltered over a RRIF holder's lifetime.**
- **3.3.2 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.**
- **3.3.3 Defer immediately or over time the requirement to convert an RRSP to a RRIF to age 75.**

3.4 Make more publicly transparent the factors used to establish the RRIF minimum payment formula and establish a regular process for reviewing the RRIF minimum payout formula to ensure it continues to meet the income needs of older retirees.

Strengthening Canada's dental care system

CALU agrees that the federal government should help those who need, but cannot afford, dental care as intended by the Canadian Dental Care Plan (CDCP) which is currently being developed and slated for gradual implementation between late 2023 and 2025. However, we are concerned the CDCP could inadvertently reduce the availability of employee dental plans offered by small businesses and shift costs to the public purse.

Specifically, we are concerned that, without proper design, the CDCP may incentivize businesses – and particularly small businesses – to drop their existing employee dental plans in favour of the federal plan.

These small businesses, many of which are private corporations, generally face higher after-tax costs of providing employee health benefits (including dental benefits) than larger private and public corporations, and typically offer less generous benefits to their employees.

The existence of the CDCP may therefore be a powerful incentive for those businesses to abandon their employee dental plans in favour of the federal plan. Conversely, the CDCP offers little incentive for businesses that do not currently offer dental benefits to their employees to do so. While difficult to quantify, we believe these risks to be significant based on reports from our members and the small businesses they deal with as well as other experts in the field.

The offloading of private dental coverage to the CDCP will inevitably increase costs to the federal purse. In June 2023, the Parliamentary Budget Officer (PBO) estimated the cost of the CDCP to range from $10.1 billion to almost $15 billion over five years. This overall cost depends on the extent to which provinces choose to abandon their existing plans in favour of the federal plan – much like businesses.

To avoid unintended consequences for small businesses and the public purse, CALU believes the CDCP should support the following objectives:

- Ensure small business dental plans are maintained and potentially enhanced.
- Encourage more small businesses to offer dental coverage as an employee benefit.
- Save program costs and/or permit the federal government to expand benefit coverage to others at the same budgeted cost.

We believe these objectives could be met by providing a 35 percent refundable tax credit in respect of the cost of dental care programs for employees of qualifying small businesses. The credit should be designed to support small businesses with employees earning less than the income coverage limits under the federal plan (the income limit).

Qualification would be based on the following criteria:

- **Type of business** – private corporations that qualify for the small business deduction, including farming and fishing corporations.
- **Dental plan membership** – at least 50 percent of employees covered by the plan earn less than the income limit with the credit not available for owners or those earning more than the income limit.
- **Plan coverage** – must be at least as generous as the CDCP.
- **Duration** – the credit program would be temporary (e.g., three years) with a review at the end of the period.

Under this proposal, employers would continue to pay about 55 percent of the cost of dental insurance for their employees thus saving the federal government from paying 100 percent of the cost if the employer dropped its dental coverage. It would also likely result in those employees receiving better dental coverage than what will be available under the CDCP.

Precedent for a proposal of this type exists in the United States where the Affordable Care Act – or Obamacare – included incentives and penalties to encourage employers to maintain health insurance coverage for all employees.

Recommendation 4: That the federal government provide a 35 percent refundable tax credit in respect of the cost of dental care programs for employees of qualifying small businesses. The credit should be designed to support small businesses with employees earning less than the income coverage limits under the CDCP, among other eligibility criteria.