



July 8, 2025

The Honourable François-Philippe Champagne, P.C., M.P.  
Minister of Finance and National Revenue  
90 Elgin Street  
Ottawa, ON K1A 0G5  
Via email: minister-ministre@fin.gc.ca

The Honourable Wayne Long, P.C., M.P.  
Secretary of State (Canada Revenue Agency and Financial  
Institutions)  
90 Elgin Street  
Ottawa, ON K1A 0G5  
Via email: secretaryofstate-secretairedetat@fin.gc.ca

Dear Minister and Secretary of State,

**Re: Recommended tax priorities**

On behalf of the Conference for Advanced Life Underwriting (CALU), congratulations on your re-election to Parliament and appointment to the Ministry. We look forward to collaborating with you and your teams as your government begins its mandate. In this spirit, we are writing to share our recommendations on tax issues that should be prioritized over the coming months, including a key commitment outlined in your party's election platform.

As a reminder, CALU is a national professional membership association of leaders in the life insurance and financial advisory industry. Along with our partner organization, Advocis, we speak for thousand of life insurance and financial advisors and, in turn, the interests of millions of Canadians.

CALU has a long history of engagement with officials from Finance Canada and the Canada Revenue Agency on a range of tax policy, legislation, administration, technical interpretations and audit-related matters. Our vision is to be the leading resource for advanced planning information for our members and government.

**Corporate tax reform**

CALU was pleased with your party's election commitment to "Conduct an expert review of the corporate tax system based on the principles of fairness, transparency, simplicity, sustainability, and competitiveness."

This commitment supports our past recommendation – including that which we [shared](#) with Finance Canada in March 2025 as part of the Budget 2025 consultations – that the federal government commission an expert panel to review and report on the tax rules governing small businesses.

Our view is that the federal rules governing the taxation of small business owners and private corporations are becoming increasingly complex and difficult for many to understand. They also result in increased compliance costs and create a disincentive to establishing and growing small businesses in Canada.

In addition, we are concerned that many recent tax changes have been implemented piecemeal, resulting in an onerous "pancaking" effect of rules and costs.



In other cases, while the federal government ultimately chose not to implement tax proposals that would have adversely affected Canadians including small businesses, those decisions came too late—after considerable resources had been spent preparing for them. Examples of such proposals include the Underused Housing Tax (UHT), bare trusts and the capital gains inclusion rate.

The desire for corporate tax reform extends beyond the CALU membership. In fact, the issue emerged as the top business concern in a June 2025 [KPMG in Canada survey](#) with 91 percent indicating Canada should simplify its corporate income tax system.

Moreover, given that the corporate tax system hasn't seen a full review in nearly 60 years, we believe it would be timely to address the issue of small business taxation to reflect Canada's current economic, business and other realities.

**The tax reform commitment in your election platform has the potential to address many of the above concerns. While we understand that your government is currently seized with crises and priorities in other areas, we encourage work on tax reform to begin as soon as possible.**

#### **Short-term recommendations**

As we understand that the promised review of the corporate tax system could be a lengthy exercise, we also provide more immediate recommendations for action – particularly as they relate to tax measures that were recently announced, but for which legislation remains outstanding or should be reconsidered. A list of these items – which should also be included the larger tax reform exercise – is available in Appendix.

We recognize the significant demands on your time but would welcome the opportunity to meet with you and/or your team to discuss the above issues and others on which CALU can be helpful. To arrange a meeting, your staff should contact Francesca Iacurto who is CALU's Vice-President, Public Affairs and Member Engagement. She can be reached via email at [fiacurto@calu.com](mailto:fiacurto@calu.com) or by phone at 613-505-9632 ext. 102.

Again, wishing you the best as you assume your new responsibilities, and looking forward to working together.

Sincerely yours,

*Sterling Rempel*

Sterling Rempel  
Chair, CALU Board of Directors

*Guy Legault*

Guy Legault  
President & CEO



## ANNEX

### Proposed short-term tax priorities

Below are CALU's positions and recommendations to the federal government on tax measures affecting small business owners and private corporations that should be actioned in the short term.

When considered individually, some of these tax measures are helpful to businesses. Collectively, however, they have had – and are expected to continue having – adverse effects on many businesses and the broader Canadian economy. These impacts include the inequitable treatment of different types of businesses; a significant increase in business planning complexities and compliance costs; and disincentives to establishing and growing small businesses in Canada.

Consequently, these measures should also be included in the review of the corporate tax system promised in the Liberal Party's election platform.

#### 1. Lifetime capital gains exemption

**Legislative status:** Budget 2024 proposed to increase the Lifetime Capital Gains Exemption (LCGE)<sup>1</sup> from \$1,016,836 to \$1,250,000 for eligible capital gains realized on or after June 25, 2024. In January 2025, the federal government announced it would introduce the enabling legislation for the LCGE "in due course."

**Position:** We believe this proposal will be beneficial to small business owners.

**Recommendation:** The federal government should quickly enact the increase to the LCGE to provide certainty to the taxpayers who have already availed themselves of the measure, and to incentivize future economic activity in Canada.

#### 2. Canadian Entrepreneurs' Incentive and Capital Gains Rollover

**Legislative status:**

##### Canadian Entrepreneurs' Incentive

- Budget 2024 announced a new initiative – the Canadian Entrepreneurs' Incentive (CEI) – to reduce the capital gains inclusion by 50% on up to \$2 million in capital gains realized from the disposition of qualifying shares by eligible individuals.<sup>2</sup> This provision was in part designed to offset the impact of the increase in the capital gains inclusion rate (to 66 2/3%) also proposed in Budget 2024.
- Draft legislation released in August 2024 significantly amended the qualifying criteria for the CEI.

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<sup>1</sup> Section 110.6 of the Income Tax Act (the Act). Unless otherwise stated all statutory references are to the Act.

<sup>2</sup> Proposed section 110.63.



- In January 2025, the federal government announced it would not proceed with the increase in the capital gains inclusion rate but would introduce the enabling legislation for the CEI starting in the 2025 taxation year “in due course.”

### Capital Gains Rollover

- The 2024 Fall Economic Statement announced plans to amend a provision of the Act which permits the deferral of capital gains on the disposition of shares in small business corporations where those proceeds are reinvested under certain circumstances.<sup>3</sup>
- The enabling legislation for this change remains outstanding.

Of note, the CEI and the capital gains rollover provision are not available to certain businesses including professional corporations and businesses engaged in the leasing, rental or sale of real property.

**Position:** We are concerned that the exclusion of certain types of businesses from eligibility for these two measures creates a two-tier system of tax incentives for small business owners. In addition, the detailed requirements make it difficult for small business owners to qualify for these types of incentives.

**Recommendation:** Given the demise of the proposed increase in the capital gains inclusion rate, and the similarities in the tax objectives of the CEI and capital gains rollover provision, **the federal government should combine these two provisions into one broader incentive that would encourage entrepreneurs to maintain and/or increase their investment in small businesses.**

### 3. EOT capital gains exemption

**Legislative status:** The federal government recently created a new vehicle, known as an Employee Ownership Trust (EOT),<sup>4</sup> to facilitate the purchase of a business by its employees. To encourage business owners to sell their business to an EOT, a \$10 million capital gains exemption is available for qualifying dispositions taking place from 2024-2026.<sup>5</sup> The legislation includes a claw back of the exemption (either to the transferor or the EOT) under certain circumstances.

**Position:** We believe the introduction of the \$10 million exemption for sales to an EOT (in comparison to the \$1.25 million lifetime capital gains exemption) may overly influence a business owner to sell their business to an EOT for tax reasons, rather than to, for example, family members or minority shareholders.

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<sup>3</sup> Section 44.1.

<sup>4</sup> “Employee ownership trust” is defined in subsection 248(1).

<sup>5</sup> Subsection 110.61.



We are also concerned that the exemption claw back provision will significantly increase the risks associated with claiming the exemption.

**Recommendation:** The federal government should not extend the EOT capital gains exemption beyond its sunset provision in 2026. It should also review the rules regarding the claw back of the exemption to ensure they don't result in unintended and harsh tax results to the transferor or the EOT.

#### 4. Technical Tax Bill

**Legislative status:** Finance Canada released a Technical Tax Bill (TTB) in August 2024 proposing the following changes to the Act:

- Extend the loss carry-back provision for a graduated rate estate (GRE)<sup>6</sup> to the first three taxation years of the GRE.
- Extend the reduction in the stop-loss rules<sup>7</sup> to apply to any capital loss realized by a GRE in the trust's first three taxation years.
- Modify the definition of "excluded amount" in the Tax on Split Income Rules (TOSI) rules<sup>8</sup> as they apply to spouses.
- Permit the required election relating to a qualifying intergenerational transfer of shares<sup>9</sup> to be amended, late filed or revoked.
- Modify the "look-through" rule<sup>10</sup> to exclude GREs from its application.

**Position:** We believe these changes would be beneficial to small business owners.

**Recommendation:** The federal government should introduce final legislation to enact these changes as soon as possible.

#### 5. Tax on Split Income Rules

**Legislative status:** The TOSI<sup>11</sup> rules were expanded in 2018 to prevent the splitting of business income by an owner of a private corporation with their spouses and adult children. Unless an exemption is available, business

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<sup>6</sup> Subsection 164(6).

<sup>7</sup> Subsection 112(3.2).

<sup>8</sup> Section 120.4.

<sup>9</sup> Section 84.1.

<sup>10</sup> Section 212.1.

<sup>11</sup> Section 120.4



income subject to TOSI is taxed at the highest marginal rate, even in circumstances where the business owner is subject to tax at lower rates.

**Position:** We are concerned that the exemptions under TOSI rules depend on criteria that may change from year to year. Assessing these complex exemptions places a significant compliance burden on small businesses and can have a discriminatory impact on certain types of businesses such as those engaged in the provision of services or professional corporations.

**Recommendation:** The federal government should narrow the application of the TOSI rules to children and spouses under the age of 25 in the year, or alternatively, exclude all spouses who are 25 years of age or older in the year. Doing so would provide greater tax certainty and reduce the compliance burden for small business owners.

## 6. The Passive Investment Rules

**Legislative status:** The small business deduction limit currently allows up to \$500,000 of active business income to be eligible for a preferential tax rate.<sup>12</sup> However, legislation effective for taxation years after 2018 reduces the small business deduction by \$5 for every \$1 of investment income above an annual \$50,000 threshold<sup>13</sup> to discourage small business owners from accumulating significant passive investments in their corporations.

**Position:** This treatment of passive investments penalizes more capital-intensive businesses and can adversely impact the retirement savings of business owners who prefer to retain after-tax income in their business rather than utilize a registered retirement savings program.

We also believe that small business owners should not be penalized for having a strong corporate balance sheet for financial stability and to fund future growth, especially in the current economic environment.

**Recommendation:** The federal government should phase out the small business deduction limit beginning at \$100,000 of annual investment income. The limit should be fully phased out when annual investment income exceeds \$250,000.

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<sup>12</sup> Subsection 125(1).

<sup>13</sup> Paragraph 125(5.1)(b).