
INSURANCE BROKERS ASSOCIATION OF CANADA
ASSOCIATION DES COURTIERS D'ASSURANCES DU CANADA

Pre-Budget Recommendations

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Submitted by:
Insurance Brokers Association of Canada



Reduce capital gains tax on sale or transfer of brokerages

Background

Many insurance brokerages are family owned and operated. Understandably, it is common for many generations of the same family to work and invest in the same business. Equally so, it is common and natural that ownership of these brokerages be passed on within the family, from one generation to the next.

People looking to pass on businesses to members of their immediate family are forced to use government authorized tax planning techniques to minimize fees paid. These techniques can include estate freezes, family trusts, complicated ownership structures, and voting non-appreciating preferred shares.

In the end, they are complicated and expensive, require specialized accountants and lawyers, and offer no guarantee to the business owner or benefit to the Canadian economy. Even worse, when such schemes are insufficient and brokers are forced to pay capital gains tax on such transfers, it can severely compromise the businesses financial situation. We thank the government for making progress on this by increasing the lifetime capital gains exemption to \$750,000 in Budget 2007, but more must be done to best allow family businesses to thrive.

IBAC Pre-Budget Recommendation

1. Allow the tax-free transfer of privately held active small businesses between parent and adult children.
2. Increase the lifetime Capital Gains exemption on the transfer of privately held businesses between family members to at least \$1 million.

Increase the Small Business Deduction

Background

The majority of insurance brokerages are small businesses, run by families and by entrepreneurs. The Small Business Deduction (SBD) provides important tax relief for such enterprises, allowing them to pay a lesser tax rate on a portion of their business income, permitting reinvestment for growth and increased competitiveness.

However, the current value of the SBD is too low to benefit most brokerages and rising costs have outpaced the increases to the deduction. Worse, at its current level, the SBD serves as an artificial ceiling to growth, as beyond its threshold, the value in any growth is mitigated by the increase in taxes.

We welcome the government's announcement in the fall economic update to accelerate the reduction in the rate applied to the SBD, however the issue still remains that the deduction itself is set too low for the majority of small businesses in general, and insurance brokerages in particular.

IBAC Pre-Budget Recommendation

1. Increase the Small Business Deduction from \$400,000 to at least \$500,000.

Reduce Corporate Income Tax rates

Background

IBAC members believe that for the federal government to foster investment and job creation, it is best to allow businesses to fund such growth by reinvesting profits.

Insurance Brokers recognize that when they take money out of their brokerages for themselves, be it as salary, bonuses, or dividends, the full rate of personal income tax should apply. But they also recognize that corporate income tax takes removes a substantial amount of money that would otherwise be available for reinvestment needed to develop the business and create jobs.

We were pleased with recent cuts to the general and small business corporate tax rate announced in the 2007 fall economic update. These will mean that more money is available to improve competitiveness and productivity, allowing for the hiring and training of additional staff, as well as other ways in which the business may expand. More however, can still be done.

While there are obvious short-term revenue implications to the government from reducing corporate tax rates, it may be possible to reduce the significance of this impact by creating a new, lower tax rate for businesses likely to be owned and operated by entrepreneurs. This could, for example, be defined as private companies with revenues under \$2 million.

IBAC Pre-Budget Recommendation:

1. Further reduce the federal corporate rate of income tax for all privately owned businesses, particularly those with revenues under \$2 million.