



SMALL BUSINESS

Accountants, financial planners brace for hit from tax changes



Financial professionals say the proposed tax laws will discourage small-business clients from using their services.

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BRENDA BOUW >

SPECIAL TO THE GLOBE AND MAIL
SEPTEMBER 13, 2017

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Financial professionals are bracing for a drop in revenue if Ottawa goes ahead with proposed tax changes for incorporated small businesses.

If the rules change, accountants and financial planners who prepare the books and invest for these business owners say their clients will be discouraged from using their corporations which, in turn, means less work for those in the industry.

The Liberal government has released draft legislation that would limit business owners' ability to reduce their family's tax bill by "sprinkling" income to family members who do not work for the business, as well as the owner's ability to convert income into capital gains. The government is also proposing to restrict the use of a small business as a vehicle for making passive investments, such as in stocks or private companies, which are unrelated to the operations.

For accounting firms, many of which are also directly affected by Ottawa's proposals, the changes are expected to create a spike in business at first – as clients seek coping strategies – and then a fall-off in activity once business owners make any adjustments.

Some business has already dried up for Gabrielle Loren, a chartered professional accountant and partner for business development at the B.C.-based accounting firm Loren Nancke & Co., who makes a portion of her living hosting monthly seminars for real estate agents who are sole proprietors and considering incorporating their business.

number of industries and for accountants across the country.

"If the government's proposed changes go through, the benefits of incorporating will be few and far between," Ms. Loren says. "That will probably reduce the income the firm sees because we handle a lot of small-business clients."

About 50 per cent of her company's income comes from small-business corporations, who pay in the range of \$2,500 to \$4,000 for financial statements and the associated tax return, while sole proprietors and individuals pay in the range of \$500 to \$1,500 for the preparation of their tax returns.

If there are fewer corporations, accounting firms will also have to rely more on part-time, seasonal employees instead of full-time workers. That's because many corporations file their taxes at different times of the year, which allows accounting firms to spread out their workload. If more people file their returns as sole proprietors or individuals, with taxes due at the end of April each year, firms will have crunch periods between February and April and less work for the rest of the year.

Accounting firms will also be challenged to find qualified seasonal workers for such a specialized service, says Michael Gorniak, a partner at Saskatoon-based accounting firm Thomson Jasper, which has eight partners, 26 salaried employees and four seasonal workers. The firm has about 1,200 private corporation clients.

"From a long-term perspective, I think we're looking at less private corporations and fewer startups that will incorporate," if the changes go through, Mr. Gorniak says.

"The overall result is that we are going to have less work and frankly, that will have a negative impact on employment levels at small-business accounting firms across the country." For instance, his firm was looking to hire three to four people this fall, and may only hire one or two if the changes go through.

Ms. Loren predicts her staff, which includes four partners and 23 full-time staff, could be reduced by about a third in a few years, as the corporate and transitioning work falls away. "Having already seen the impact of the proposed changes, I cringe to see what happens if this actually goes through," she says.

Mahyar Hansotia, president of Toronto-area accounting firm Sobel & Company, Professional Corporation, says the new rules will make it more complicated for accountants to track the source of investment income.

While that may sound like more work and extra money for people in his profession, Mr. Hansotia is concerned small-business clients – already paying higher taxes under the new rules – will seek out cheaper accounting services. In some cases, those low-cost alternatives may require business owners to document and track their own accounts, which could lead to mistakes.

"Then, if they're audited by CRA, which finds those mistakes, that could cost the business owner more in the long run, in terms of taxes and interest charges," Mr. Hansotia says.

Financial planners will also be affected if their clients have less money to invest, with more funds being paid in taxes.

"When there is less money to invest there are less assets for me to manage. When there are less assets for me to manage, there is less revenue," says Simon Tanner, principal financial adviser at Vancouver-based Dynamic Planning Partners. "It will impact the growth of my business," which Mr. Tanner says has been focused on helping entrepreneurs and other small business owners with their financial planning.

Keith Costello, chief executive officer of the Canadian Institute of Financial Planners, says the changes will also hurt fee-based planners who are likely to see less business.

"At the time when they most need their help because of these changing tax strategies, small-business owners may not be able to afford the best services to help with their financial well being and future retirement," Mr. Costello says. "It's kind of a paradox."

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Video: Morneau defends proposed tax changes for small business owners
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ABOUT THE AUTHOR

BRENDA BOUW >
CONTRIBUTOR AT THE GLOBE AND MAIL

Brenda Bouw is a freelance writer and editor based in Vancouver. She has more than 20 years of experience as a business reporter, including at The Globe and Mail, The Canadian Press, the Financial Post and was executive producer at BNN (formerly ROBTv). Brenda was also part of the Globe and Mail reporting team that won the 2010 National Newspaper Award for business journalism. [MORE >](#)

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351 King Street East, Suite 1600, Toronto, ON Canada, M5A 0N1

Phillip Crawley, Publisher

