

The Hass Report

Fall 2017

Beware of Unintended Tax Consequences

Being an Albertan, I remember it wasn't that long ago we encountered a change in taxation based under the guise of oil companies paying their "fair share." In the end, Premier Ed Stelmach's New Royalty Framework (NRF) proved to be a disaster due to the number of so-called "unintended consequences." His NRF was eventually scrapped a few years later with a much-improved iteration.

Our current Federal government is now proposing a material change in private corporation tax policy on the same premise of ensuring all Canadians pay their "fair share", which could have a number of unintended consequences of its own.

The problem, according to Kim G C Moody, a director of Canadian tax advisory at Moody's Gartner Tax Law, is that the federal government may be missing a key point.

"The Federal government is billing their proposed changes as 'tax fairness for the middle class,' but many of us in the middle class either own or work for a small business," Moody says, noting that Statistics Canada figures show that in 2015, small businesses employed more than 70 per cent of the 11.6 million Canadians who work in the private sector.

"As a result, small business has become a core component of our economic innovation and growth, accounting for 27 per cent of total research and development expenditures by spending \$13 billion between 2011 and 2013," Moody says. "In 2014, small business contributed 30 per cent of total GDP in their respective province."

In regards to the potential magnitude of impact, Moody points out that if enacted, it would result in "some of the most dramatic tax policy changes for private corporations and their shareholders in almost 50 years." "Unfortunately, these are tax rules that will affect virtually every small business, most of whom do not have the ability to engage in complex tax planning nor can afford to have dedicated tax people on staff or to engage external professional help."

Then there is the risk question. While many are calling the current system a 'loophole', in actuality many entrepreneurs have taken on a high degree of risk with the understanding that the existing tax structure will provide a partial offset. Moody says his firm has seen "an uptick in Canadian business owners leaving Canada and changing their plans so that the growth of their business will occur outside of Canada" due to increased personal tax rates and other changes. The new changes could further exacerbate the problem, he says.

This isn't surprising. Simply take a look at the near 30 per cent vacancy rates in downtown Calgary, thanks to the mass exodus of capital from the energy industry as local companies cut back spending and international companies altogether pack up and sell their Canadian operations. While there has been all kinds of excuses pertaining to the low oil price, we wouldn't discount our lack of government support for infrastructure such as pipelines and access to non-U.S. export markets, increased taxation from the recent Carbon tax legislation, and an overall more challenging operating environment than other jurisdictions.

Moody stresses the importance of government to provide fertile gardens for entrepreneurs to thrive and create more tax paying jobs. This is why the government should take their time and gather as much information as possible.

As Moody puts it: "Poorly thought out tax policy that is implemented in a hurry can have dramatic unintended consequences."

As an investor, this is definitely worth keeping a very close eye on, especially as our central bank is on a course to de-stimulate the economy with higher interest rates and an increasing Canadian dollar. Higher taxes on small business certainly isn't going to help foster economic growth, innovation or diversity, all of which are key components when making portfolio allocation decisions.

Excerpt from Martin Pelletier Financial Post August 1, 2017

Hass Wealth Advisory Group



Shawn Hass, B.Mgt, FMA, CIM, FEA
Vice President, Portfolio Manager



Dustin Leniuk, B.Mgt., B.A., CFP
Associate Advisor



Melissa Honess
Administrative Assistant

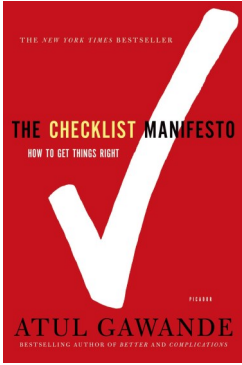
Toll Free 844-709-8972
Office 403-317-4312

RBC Dominion Securities Inc.
204-1st Avenue South,
Lethbridge, AB T1J 0A4



A Book an App & Website

BOOK: **The Checklist Manifesto**



The modern world has given us stupendous know-how. Yet avoidable failures continue to plague us in health care, government, the law, the financial industry—in almost every realm of organized activity. And the reason is simple: the volume and complexity of knowledge today has exceeded our ability as individuals to properly deliver it to people—consistently, correctly, safely. We train

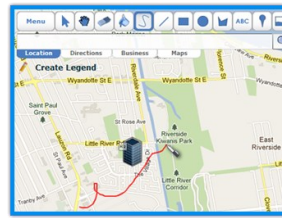
longer, specialize more, use ever-advancing technologies, and still we fail. Gawande visits with pilots and the people who build skyscrapers and comes back with a solution. Experts need checklists—literally—written guides that walk them through the key steps in any complex procedure.



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Announcement

We are pleased to announce Dustin Leniuk has successfully completed his Certified Financial Planner designation. This designation requires the candidate to meet very strict education requirements, successful completion of the examination, industry experience and rigorous ethics requirements.

As an internationally recognized financial planning designee Dustin looks forward to bringing the most innovative methods and best practices to our clients. The Hass Wealth Advisory Group is honored to have Dustin providing our clients with these advanced planning methods which compliment our 360 Degree Planning Process. Congrats!



Community

This quarter we were proud to support the various organizations throughout Southern Alberta (see below). In particular, it was fun to surprise the Big Brothers & Big Sisters group with Whoop Up Days admission/midway wristbands for the participants of their program. They were so appreciative and excited to enable so many children who have not participated in this event in the past to be given the opportunity to attend this year's fair and Whoop Up Days festivities.

- United Way Golf Classic
- Canadian Humanitarian for International Relief
- Cal Bombay Ministries Inc (Garden of Hope)
- Big Brothers & Big Sisters
- Hays 4H Club
- Taber Cornfest
- CRHF Italian Open
- Ian Van Seters Memorial Golf

Signs around town...



In a restaurant window:
“Don’t stand there and be hungry;
come on in and get fed up.”

On the back of a septic tank truck:
“Caution—this truck is
full of political promises.”