

Abolition of the Cumulative Net Investment Loss

The reasoning behind the Cumulative Net Investment Loss (CNIL) provisions, particularly where they apply to loans advanced to Canadian Controlled Private Corporations (CCPC) and Small and Medium Enterprises (SME) does not reflect the new realities and the needs of CCPC's and SME's for financing.

Publications have indicated that the purpose of this provision was to insure that individuals cannot incur deductible expenses (e.g. interest) in connection with the purchase of low income producing assets, and then utilize their capital gains exemption when the assets are sold at a gain. Since it applies mainly to the sale of shares of a CCPC, farms and fisheries, it has a detrimental affect on the small business sector, the largest employer in Canada.

The CNIL concepts are no longer aligned with the goals of the government and for this reason, the provisions should be removed. It is also an opportunity to reduce the complexity of the Tax Act.

Canada as a whole, and particularly small businesses, are in desperate need of investment capital. This has been a larger issue in the past 6 months, with the chartered banks being reluctant to lend. This fact has been recognized by the Ministry of Finance and the Bank of Canada. The person investing in the CCPC by way of a loan is often advancing the funds because the company cannot obtain the financing through traditional channels. The provision of these funds should not have a negative affect on the person providing the funds. We believe that this was not an intended affect of the original legislation.

SME's employed 64% of the private sector employees in 2007. They have a faster rate of job creation than mature firms . The survival rate of these companies is quite low with about 145,000 entries per year and about 132,000 exits. These businesses usually are under financed and need assistance from informal sources such as personal savings, personal credit cards, personal lines of credit, loans from family and friends and employees, loans from other parties. These loans are often advanced interest free, while the lender has actually borrowed the funds, and is paying interest. This creates a Cumulative Net Investment Loss.

RECOMMENDATION

That the federal government repeals the sections referring to Cumulative Net Investment Loss in the Income Tax Act.

Submitted by Absorbent Products