The Influence of Tax Factors on Canadian and Quebec SME Transfer Intentions

HIGHLIGHTS

Economic contribution of capital gains generated by SME transfers

In Québec alone, the capital gains that would be generated by the fulfilment of all SME transfer intentions could reach the $15.7 billion mark over a period of five years (2017-2022). These transfer intentions among Québec SMEs would annually generate the equivalent of 1.4% of the total remuneration for all employment in Québec in 2017, which represents a total remuneration equivalent to that of all employment in the real estate services and rental and leasing services industries. At the same time, we note that SME transfers in the other Canadian provinces annually represent a little over $41 billion in capital gains over a period of five years, i.e. slightly more than $8.2 billion per year. Across Canada, the value of the anticipated capital gains from intended SME transfers corresponds to a little over $11.4 billion annually.

Overall fiscal impact of the existing rules on SME owner revenues

Our findings suggest that the Québec SME owner population that intends to transfer to family members between 2017 and 2022 could save $245.6 million to a little over $1.04 billion, if it were eligible for the same capital gains deduction as the one extended to Québec SME owners who are thinking about transferring their businesses to external successors. For the first group, our estimates show that, altogether, 33,867 Québec owners would reap over $5.3 billion if they were eligible for the same capital gains deduction as the group that includes owners who prefer to transfer to external successors.

Estimated average additional revenue for SME owners who are ineligible for the capital gains deduction

For the 10,414 Québec owners who intend to transfer to family members, we estimate average taxable capital gains of $91,567 in 2017. This amount of $91,567 thus serves as the basis from which to calculate additional taxable revenue that would be proportional to the owner's marginal tax rate in the event that he or she is unable to satisfy the existing eligibility requirements.

Estimated fiscal inequity

For the 10,414 Québec owners who intend to transfer to family members, our estimates suggest that the ineligibility for the capital gains deduction represents potential additional revenue of up to $1.96 billion over a period of five years. These owners could save $245.6 million to a little over $1.04 billion if they were eligible for the same capital gains deduction as those who prefer to transfer to external successors. These estimates show that the fiscal inequity associated with family SME transfers represents around 16.4% of the capital gains that can be generated by a transfer in Québec and 17% in the other Canadian provinces.

Contribution of governments to the economy by easing the tax rules associated with capital gains

According to our estimates, the tax easing granted to owners who transfer their SMEs represents a little over $2.9 billion for both levels of government, which would be distributed over a period of five years (2017-2022), i.e. approximately $580 million annually.