RALLIEMENT NATIONAL DES MÉTIS NATIONAL COUNCIL

THINK GROWTH

Incentivizing Investment in Métis Businesses

Key Takeaways

- Increased private investment in Métis businesses will support Métis economic growth and prosperity.
- Domestic and International Models to incentivize investment include:
  - Canadian Capital Gains Deferral for Investment in Small Businesses.
  - United Kingdom Business Asset Rollover Relief (BARR).
- Introducing a Canadian Federal Program: the Invest in Métis Credit (IMC) would support the investment of capital gains into Métis businesses.

Purpose

The purpose of this policy brief is to recommend how to incentivize private investment in Métis businesses to support their economic growth.

Background

As a result of historical and institutional factors, Métis businesses have unique needs and interests, many of which set them apart from other Canadian businesses. For example, Métis businesses have a limited access to capital, hindering their ability to grow. [1]

The Government of Canada can open a new source of capital from the private sector by providing incentives for private investors to invest in Métis businesses. A model to incentivize private investment in Métis businesses is outlined below.

Established Models to Incentivize Investment

Canadian Capital Gains Deferral for Investment in Small Businesses

The Canadian Capital Gains Deferral for Investment in Small Businesses (CCGDISB) does not reduce the total amount of capital gains but serves as an example of a tax deferral mechanism that could be adapted to encourage investment in Métis businesses.

1 CCIB. "Indigenous-Owned Exporting SMEs" page 15

This measure allows individuals to defer capital gains incurred on certain small business investments. This deferral applies to disposed items where the proceeds are used to acquire another small business investment. The adjusted cost base (the cost of an asset plus any expenses to acquire it, such as commissions and legal fees) of the new investment is reduced by the capital gain deferred from the initial investment.[2]

However, the CCGDISB is difficult for businesses to utilize for several reasons:
(1) In order to qualify, one may only acquire shares from a spouse, common-law partner, or parent due to circumstances such as a death or the breakdown of a marriage or common-law partnership.
(2) For the purposes of the capital gains deferral, the Canada Revenue Agency (CRA) considers one to have acquired such shares at the time and under the same circumstances that the related individual originally acquired them. In order words, this does not provide capital gains relief, but rather defers the Capital Gains payable upon the final sale of the asset at a future date.
(3) In addition to it only being applicable in 2019, an eligible small business corporation cannot be any of the following:

- professional corporations,
- specified financial institutions,

corporations whose principal business is leasing, renting, developing, or selling real property that it owns, nor corporations where more than 50% of the fair market value of its property (net of debts incurred to acquire the property) is attributable to real property.

Thus, these measures act as barriers to accessing the Canadian Capital Gains Deferral.[3]

<u>UK Business Asset Rollover Relief</u> (BARR)
Similar to the CCGDISB, the purpose of the UK Business Asset Rollover Relief (BARR) program is to provide capital gains tax deferral, incentivizing the reinvestment of proceeds into business assets following the sale or disposal of another business asset.

2 Government of Canada. "Capital gains deferral for investment in small business."

3 Government of Canada. "Capital gains deferral for investment in small business."

One example would be: A business sells a parcel of land for £75,000 and reinvests the proceeds into a new parcel of land costing £90,000. By claiming Business Asset Rollover Relief (BARR), the business defers paying capital gains tax on the profit from the sale of the first parcel of land. Since the entire sale amount of £75,000 is reinvested in the new asset, 100% of the capital gains tax[4] is deferred. The tax will only become payable when the second parcel of land is sold, as the deferred gain is rolled over into the base cost of the new asset, reducing[4] its taxable value.

To qualify for BARR, a business owner must satisfy the following requirements:

1. buy the new assets within three years of selling or disposing of the old ones (or up to one year before),
2. Be operating when they sell the old asset(s) and buy the new one(s), and
3. if it a stand-alone asset, the old and new assets must be utilized in the business.

One can claim relief on land, buildings, fixed plant and machinery assets. [5]

Recommendation to Incentivize Private Investment in Métis Businesses

Introduce an Invest in Métis Credit (IMC)

The Invest in Métis Credit (IMC) will be modeled after the UK Business Asset Rollover Relief (BARR) to create a capital gains tax deferral program that supports Métis businesses. Unlike the Canadian Capital Gains Deferral for Investment in Small Businesses (CCGDISB), the IMC will allow reinvestment of capital gains into a wide range of business assets, such as land, buildings, and equipment, rather than limiting eligibility to small business shares. This broader scope will ensure that Métis businesses in all industries can access investment opportunities.

The IMC will incentivize direct reinvestment into assets critical for business growth by deferring tax liabilities until the new asset is sold. This approach will increase private investment in Métis businesses, providing them with the resources needed to expand and compete in their industries.

4 UK Government. “Business Asset Rollover Relief.”

5 UK Government. “Business Asset Rollover Relief.”