

PRE-BUDGET SUBMISSION

TO

THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE

From

Direct Sellers Association of Canada

Association de ventes directes du Canada

SEPTEMBER 20, 2000

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INTRODUCTION

The Direct Sellers Association of Canada (DSA), founded in 1954, is the national association of Canadian direct selling companies and their independent sales contractors (ISCs). The mission of the DSA is to further enhance trust, confidence and growth in the Canadian direct selling industry through self-regulation and ethical conduct.

The DSA and its 55 member companies are committed to the high industry standards set out in its Code of Ethics and Business Practices (Appendix A). The purpose of the Code is to emphasize the sense of responsibility all DSA members should express and exhibit towards Canadian consumers and the general public. The Code applies to direct sales practices used in the marketing of products and services and refers to the relationship DSA members and their ISCs should strive to have with the consumer and the community.

More than 1.3 million ISCs in Canada sold more than \$1.6 billion of retail goods and services during the past year. The direct selling companies and their ISCs market and distribute a wide variety of products and services directly to the consumer, usually but not exclusively in the consumer's home, rather than in a traditional retail sales establishment. It should be noted that 73% of the ISCs are women, 77% are married, 66% have full-time jobs - using this business opportunity to earn extra income, and approximately 33% work full or part-time and have no other occupation.

The products and services sold by these individuals are as diverse as the individuals themselves – cosmetics and personal care items, clothing and accessories, home appliances, houseware specialties, household cleaning products, candles, natural health food products, toys, educational products and telecommunication services just to mention a few. Generally, these products and services are sold in the context of group presentations (or party plan), or on personal consultation basis.

The strength of direct selling lies in its tradition of independence, its simplicity, and its commitment to a free market system, providing accessible business and career opportunities to people whose entry is not restricted to gender, age, education or previous experience. This opportunity in small business is accessible to women and men everywhere in Canada, whether they live in urban or rural communities. It is a significant fact that direct selling is a manageable economic opportunity, which can further family income with minimal disruption and minimal investment.

The DSA has always shared its expertise and knowledge with all levels of government. For example, the DSA has worked closely with Revenue Canada (now the CCRA), in educating and encouraging ISCs to comply with Canada's Income Tax laws by assisting in the preparation of the *Tax Filing Information for Independent Sales Contractors* Income Tax Guide; the Consumer Protection Agencies across the country, in promoting the harmonization of Provincial direct selling legislation; and the Canadian Competition Bureau, in promoting the principles as set out in the *Competition Act* to the members and ISCs. Internationally, the DSA has asked the Canadian representative at the APEC Ministerial Forum for Small and Medium Enterprises to support the Consumer Education and Protection Initiative aimed at enhancing consumer protection across APEC economies. The DSA proudly notes that this initiative was endorsed by APEC in 1999.

SUMMARY OF RECOMMENDATIONS

I. Job Creation and Transitioning to Independence

The DSA recommends that existing social programs be amended to allow transitional relief to all individuals moving from dependence on employment insurance or social assistance to independence in his or her own small business.

Additionally, once a taxpayer's earnings have surpassed the allowed level of transitional relief (currently 25% of EI earnings), the DSA recommends that social programs be amended by providing additional pro-rata relief, by only deducting 50% of additional earnings from EI eligibility during the transition period. This will encourage those individuals, who are in the most unfortunate situation of having to rely on social assistance, to become self-sufficient by encouraging all persons to start new income earning business ventures. In the long-term, this should ultimately decrease the amount of Canadians relying on Canada's many social programs, and benefit the Canadian economy as a whole.

II. Retirement Savings Contribution Limits & Age Restrictions

Consistent with the Standing Committee's year 2000 Budget Submission Report, instead of increasing the RRSP contribution limits within the next five years, the DSA recommends that the current RRSP contribution limits be increased immediately from \$13,500 to \$17,500. This will encourage all Canadians to increase their savings, at a time when the Canadian economy is at its strongest, thereby enabling all Canadians to more adequately plan for their retirement.

Every year, the average life expectancy of Canadians increases, with many Canadians working well beyond the age of 69. The DSA recommends that the maximum age for contributing to an RRSP, and the age on which an RRSP matures, be increased from age 69 to 75. The advantages of this proposal are two-fold. First it enables those Canadians

who are still earning income in their later years to continue to provide for their retirement. Second, it allows those Canadians who have their retirement savings tied up in an RRSP the additional flexibility they need to manage their life decisions, instead of requiring them to extinguish their RRSP and set up an RRSP annuity or an RRIF.

III. GST and the Direct Sellers Mechanism

Finally, the DSA recommends that legislative action be taken to extend the Direct Sellers Mechanism so that it will equally be available to those direct sellers and their ISCs who operate on a sales agent basis. This will significantly reduce administrative and compliance costs to the members, ISCs, and the CCRA, as ISCs would no longer register for GST simply so they can recover GST paid on sales aids through an input tax credit.

RECOMMENDATIONS

I. Job Creation And Transitioning To Independence

The DSA believes it is important for the government to understand that the direct selling industry is a vital part of the small business sector in Canada. We have a tremendous capacity to create jobs and reduce dependence on social assistance programs by providing accessible earning opportunities, with little or no investment, to a broad spectrum of Canadians. The accessibility of these earning opportunities is highlighted by the fact that 57% of all ISCs have only a high school education (or less).

One of the cornerstones for success in the direct selling industry has been the quality and availability of training for ISCs, who learn to properly present the products, guarantees and business opportunities of the companies which they represent.

By providing such training and educational assistance to people who have the ability to succeed in a sales career, the direct selling industry is contributing to the Canadian economy in a positive fashion while reducing the burden on the public sector. The direct selling industry provides an opportunity for all Canadians to increase their knowledge and skills set, providing benefits to the Canadian economy in the process.

With more than a million women (73% of the ISCs) working within the industry, usually on flexible hours within their own homes, there is a reduced burden on the already severely strained child care system than there would be if these women were in the conventional fixed hours work force established outside of the home. A previous study, "Women in the Labour Force", published by Statistics Canada, focused on the challenges encountered by single mothers in their attempts to re-enter or remain in the labour force and some of the negative perceptions associated with their particular status.

The report raised the question as to the new and growing barriers that are keeping single mothers on welfare when they would rather be productive working members of society. Some of the barriers include: limited employment options, absence of day care facilities during early and late hours of the day, time off for family problems, etc.

The direct selling industry can, and will meet the needs of hundreds and thousands of Canadians, who find themselves in these familiar situations, offering flexibility of hours, a wide variety of earning situations, and the opportunity of maintaining, or returning to, a meaningful and fulfilling standard of living.

We believe that the small and medium-sized business sector will continue to be the engine for Canadian economic growth. It is this area which continues to create jobs when the economy is at a standstill. ***The direct selling industry has an unlimited capacity to transform individuals who are dependent on social programs, such as employment insurance, into successful small business people.***

However, the present rules for employment insurance and social assistance create a barrier to entering the direct selling industry for those who are receiving such benefits. While there is now a provision which allows for a certain level of additional income from employment before benefits are reduced, there is only uncertain and limited transitional relief for earnings from self-employment.

When an unemployed man or woman becomes self-employed and begins their career as an ISC, they are required to complete a Human Resources Development Canada (HRDC) "self-employment" questionnaire. The purpose of this questionnaire is to determine whether the individual is still eligible to collect EI while operating their own business as an ISC. Factors which are considered by HRDC include whether the ISC will be working more than 35 hours per week, whether they are capable of working at another job, whether staff will be hired, whether any investment in capital is required, etc. Where HRDC determines that the ISC is still eligible to continue claiming his or her EI benefits, certain restrictions are imposed. The more stringent requirements include a work week of less than 35 hours and earnings of less than 25% of the total EI benefits received. Once the 25% threshold is surpassed (earnings equalling approximately \$50/week), the claimants will have their EI benefits deducted dollar per dollar with every additional dollar earned as an ISC.

The current rules respecting eligibility do not apply with a sufficient degree of certainty for ISCs. Although there is a slight transition period (i.e., until earnings reach 25% of their EI benefits), ISCs who have a solid, reliable business plan for self-employment, and who plan on making direct selling their full time job, become ineligible for EI benefits.

Thus, the current rules discriminate against the direct selling industry, and inhibit the transition from dependency to independence, by discriminating against those who are serious from the outset in establishing their direct selling business, denying these persons any transitional EI relief during the start-up phase of their small business, and thus

discouraging these persons from making the transition.

In addition to being unfair, the current rules do not take into account the fact that, like any business venture, there are certain risks/costs associated with establishing a business venture. An individual entering the direct selling industry has some start-up costs, such as a small investment in a new business starter kit, and usually requires a reasonable period of time (which, in the beginning is often time intensive requiring in excess of 35 hours per week) before a customer base is established and income is generated.

For these reasons, the transitional EI relief should not only be enhanced by being available to all ISCs, but it should also be increased from the current level of 25% to account for earning fluctuations resulting from the risks and uncertainties associated with self-employment. Specifically, non-eligibility should be phased in, on a pro-rata basis, so that ISCs are still encouraged (or not hindered) to establish their independence, and are rewarded for their additional efforts. For example, instead of ISCs losing 100% of EI eligibility at earnings gained in excess of the 25% threshold (i.e., a dollar for dollar reduction), a pro-rata reduction to EI eligibility, such as 50% of every additional dollar earned, should be implemented to phase out a person's reliance on social assistance. This recommendation will not only benefit those making the transition from dependence on social assistance to independence, but in the long term, will benefit the Canadian economy as a whole.

Recommendation

The DSA recommends that existing social programs be amended to allow all individuals the transitional relief needed to move from dependence on social assistance to independence in his of her own small business.

Additionally, once a taxpayer's earnings have surpassed the allowed level of transitional relief (currently 25% of EI earnings), the DSA recommends that social programs be amended by providing additional pro-rata relief, through only deducting 50% of additional earnings from EI eligibility (i.e., for every dollar earned EI eligibility is reduced by only 50 cents).

II. Retirement Savings Contribution Limits & Age Restrictions

a) RRSP Contribution Limits

Self-employment is one of Canada's strongest sources of job growth and the DSA believes it is vital for the government to understand the importance of RRSP contributions in the retirement planning of ISCs and other small independent Canadian business men and women. Unlike many employees in the public and private sector, self-employed persons such as ISCs do not have company/government pensions to rely on for their retirement and, as such, usually depend entirely on their own savings. Additionally, since many ISCs conduct their businesses to supplement their income (66% of ISCs are also employed full-time) so that they can provide themselves with additional savings, the levels for RRSP contributions become increasingly more important.

Even though the Canadian economy has been growing at unprecedented rates, RRSP contribution limits have decreased from \$14,500 in 1995 to its current limit of \$13,500. This decrease, compounded with the negative inflationary effects, significantly hinders Canadian taxpayers' abilities to adequately provide for their retirement through an RRSP. The government's 1996 announcement freezing RRSP contribution limits until the year 2004 is equally discouraging to the average Canadian taxpayer, falsely indicating that saving for retirement should not be a top priority for Canadians.

Recommendation

Consistent with the Standing Committee's report for the year 2000 Budget, and the federal government's 1999 "five-year tax reduction plan", the DSA recommends that the current RRSP contribution limits be increased immediately from \$13,500 to \$17,500 so that ISCs and all Canadians can more adequately provide for their retirement.

b)RRSP Age Restrictions

Every year the average life expectancy of Canadian citizens increases, causing more and more Canadians to worry about what monetary resources they will have available to them on retirement. Many of the more than 1.3 million ISCs in Canada are made up of elderly Canadians, who use their businesses to supplement their other income sources.

Currently, those Canadians who are over the age of 69 are precluded from contributing to, or maintaining, an RRSP. Instead, all income they earn is taxed at the current marginal rates, and there is no opportunity for these individuals to defer any of their earnings. Also, instead of their savings staying put in an RRSP, Canadians are required to roll their RRSP into an RRSP annuity or an RRIF. Those who fail to take the necessary steps to transfer their savings out of their RRSP pay income tax on the total value of their RRSP.

Recommendation

In addition to increasing the contribution limits, the DSA recommends that the maximum age for contributing to an RRSP, and the age on which an RRSP matures, be increased from age 69 to 75. The advantages of this proposal are two-fold. First it enables those Canadians who are still earning income in their later years to continue to provide for their retirement. Second, it allows those Canadians who have their retirement savings tied up in an RRSP the additional flexibility they need to manage their life decisions, instead of requiring them to extinguish their RRSP and set up an RRSP annuity or an RRIF.

III. GST, The Direct Sellers Mechanism And Sales Agents

The Direct Sellers Mechanism (DSM) is a classic example of government and business working in partnership to develop a policy which has been beneficial to consumers, the government, the direct selling industry and the more than 1.3 million ISCs across the country. It is this type of cooperation between government and business which is necessary to strike the proper balance among the competing concerns of raising revenue and ensuring broad-based voluntary tax compliance, while freeing business from unnecessary administrative burdens.

Subject to the important concern noted below, the DSA is pleased to state that the needs of the member companies and the ISCs have generally been met by the DSM, in that it relieves much of the burden for ISCs in terms of filing and collecting GST. This mechanism is based on pre-collection of GST on the suggested retail price, with the result that (a) there is a cash-flow advantage to the government and (b) there is no “underground economy” with respect to GST in the direct selling industry. The DSM has significantly reduced government administrative costs by negating the need for ISCs to be GST registered, while maintaining the same level of GST revenues, allowing more tax “bang” for every administrative “buck”. The DSA member companies and affiliated ISCs have collected and remitted in excess of \$700 million in GST revenues since the inception of the GST in 1991.

While the DSM is operating in a positive fashion, it currently only applies to those direct selling companies whose ISCs operate on a buy-and-resell basis. The 20-25% of the direct selling industry which operates through sales agents, who earn commissions for arranging the sales of the products involved, are currently excluded from using the DSM.

These companies and their sales agents have indicated that they feel discriminated against

by not having the DSM equally available to them. This is because GST must be charged on their sales aids supplied to their ISCs, needless administrative costs are incurred in dealing with and recovering GST paid to the ISCs on their commissions, and more small independent businesses are forced to become involved in GST registration, collection and remittance.

The benefits of extending the DSM to this sector of the direct selling industry would be significant: the GST rules would apply on the same basis throughout the industry with minimal, if any, impact on government revenues, the companies and their sales agents would face a significantly reduced administrative and compliance burden, and the CCRA's administrative costs would be reduced as the sales agents would no longer be required to be registered for GST purposes simply so they can recover the GST they paid on sales aids through an input tax credit.

Accordingly, the DSA recommends that the DSM be expanded, so that it will be available, not only to those direct sellers and their ISCs who operate on buyandresell basis, but also to those direct sellers and their ISCs who operate on a sales agent basis.

Recommendation

The DSA recommends that legislative action be taken to extend the Direct Sellers Mechanism so that it will equally be available to those direct sellers and their ISCs who operate on a sales agent basis.

CONCLUSION

The Direct Sellers Association appreciates the opportunity to appear before the Committee and to put forth not only its concerns, but some concrete recommendations that will: (i) assist in putting Canadian men and women back to work; (ii) help achieve

greater fairness in the income tax system for ISCs and other small Canadian businesses; (iii) expand the DSM to the full direct selling industry to further reduce unnecessary duplication and compliance costs thereby making the GST system more efficient, and (iv) most importantly, help the Canadian economy flourish beyond the realms of only the direct selling industry.

As always, the Direct Sellers Association is prepared to provide its support to the government to help achieve these goals. The DSA, and all its members, thank the Standing Committee for allowing it to participate in the 2001 Budget making process.

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