Taxing truths

By Stephen Kimber

If Ottawa dares make our tax system fairer, sputtered a spokesperson for one Canadian doctors' association, thousands of physicians will simply pack their bags and "leave the country."

Oh my.

Meanwhile (take a deep breath), the always huffy-puffy Canadian Federation of Independent Business (CFIB) huffed and puffed that if Ottawa took away all those fancy-dancy-if-legal tax dodges the high-priced tax-avoidance specialists use to save the richest five per cent of small business owners from paying their fair share of taxes, the move would "harm every Canadian small business."

Oh dear.

Not to be out-apocalypsed, new Conservative leader Andrew Scheer apocalyptically declared Justin Trudeau's liberals are "demonizing" Canada's thousands of hardworking, honest, small business owners.

Oh no.

Perhaps it's time to take a step back from this rhetorical abyss and ask ourselves what all this fuss and fury is about? Really.

In July, Finance Minister Bill Morneau announced the opening of a 75-day consultation period to get public feedback on a modest set of modest federal tax reform proposals he'd introduced.

Their backdrop: it had become clear many high-earning Canadians were incorporating businesses—Canadian-controlled private corporations, or CCPCs in taxspeak—primarily to shelter/hide their income from the tax man. That was never their purpose. CCPCs were designed to protect small business owners from legal liability.

But then the tax planners got involved. Under current, completely legal but unfair-for-those-who-aren't-incorporated tax rules, high income owners of CCPCs can "sprinkle" their income among other family members, including those who aren't even involved in the business. That income then gets taxed at a lower rate. Not a bad deal if you can swing it. Regular salaried Canadians can't. Ottawa says 50,000 well-heeled folk with CCPCs currently drive their tax trucks through this loophole, costing government treasuries $500 million a year.

The government also proposes to restrict CCPCs from squirreling away cash in interest-earning passive investments that don't create jobs (the rationale for the deduction) and limit CCPC owners' ability to use capital gains to dodge even more taxes.

None of this seems particularly earth-rattling. So what's the big deal?

Laval economist Stephen Gordon, writing in the *National Post*, nails it. After Justin Trudeau's Liberals attempt to fulfill their 2015 election promise to bring some modicum of fairness into the system by increasing the top personal income tax rate, "many high earners simply used their CCPCs to shelter more of their income."

The government's new plan to close the CCPC loopholes means "it will now be harder for top earners to avoid that new, higher top personal income tax rate."

No wonder spokespeople for the powerful are now in full-throated fury. And why so many others have been sucked in by their bleating.

So who will really lose if Ottawa plugs these loopholes? Not most small businesses. Take note, CFIB.

For starters, Canada already has the lowest small-business tax rates in the G7—and Ottawa isn't planning to change that.

So who will really lose if Ottawa plugs these loopholes? Not most small businesses. Take note, CFIB. Canada already has the lowest small-business tax rates in the G7—and Ottawa isn't planning to change that.

As for the impact of eliminating tax breaks, Tax Fairness Canada points out you'd have to earn $150,000 or more to "significantly benefit" from the loopholes the government wants to close, and Stats Canada research shows two-thirds of Canadian small business owners actually earn less than half of that.

Hmm… Does that sound like "every Canadian small business" will be harmed?

What about family members? If they actually *work* in the family business—and aren't, as *VICE Magazine* puts it, "pawns in a scheme to pay less taxes"—nothing will change other than the fact the owner may now have to show their adult children are actually part of the business.

Is that such a hardship?

Morneau's changes aren't perfect, and they don't go nearly far enough to reduce income inequality in this country. But they're a start—if they survive all the self-interested lobbying.

Stephen Kimber, who teaches journalism at the University of King's College, is the award-winning author of one novel and nine nonfiction books.

FEEDBACK
dchafe@atlanticbusinessmagazine.com;
@AtlanticBus; @skimber; #TrumpedupTruths