

MP'S REPORT: Update on Tax Fairness & Remembrance Day

By Leona Alleslev, MP
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Last month I provided an overview of the proposed tax changes for Canadian private commercial corporations (CPCC) that were undergoing consultation and the feedback I received from you at the Tax Fairness Town Hall I hosted and through correspondence you sent.

Again thanks to all who engaged with me on this important topic. I would like to take this opportunity to provide an update. Our government announced that we are fulfilling our promise to Canada's small business owners by lowering Canada's small business tax rate from 11% in 2015 to 9% by 2019.

With respect to the three proposed tax changes, the following outlines the feedback I received and submitted to the Minister of Finance, and our Government's response:

1. Income Sprinkling ? This proposal would limit the ability to shift income from an individual facing a higher personal income tax rate to a family member with a lower personal tax rate. The ability to shift this income would be determined through a ?reasonableness test?. Constituents have expressed concern over the potential compliance burden associated with the ?reasonableness test?. Overall, many people supported the aim of this proposal, but were concerned with the practical execution.

1. UPDATE ? We heard concerns that the original proposal was too complex and created uncertainty for family members. In response, our Government has released a simplified proposal to address income sprinkling which will support owners who invest and grow our economy.

2. Passive Income? Corporations can earn ?passive income? which is income derived from portfolio investments. Corporate income is taxed at lower rates than personal income, giving businesses more money to invest. However, there are times when private corporations earn income beyond what is needed to re-invest and grow the business. In these cases, those who own a private corporation have the opportunity to hold passive investments inside the corporation. The proposal would eliminate the tax deferral advantage on passive income.

The majority of concerns centered around the need for businesses to build a reserve fund to further invest in the business, plan for parental leave/retirement, or to prepare for a potential downturn. There was limited support for this proposal and constituents believed that these concerns needed to be addressed prior to implementation.

2. UPDATE?Moving forward our Government will create a \$50,000 threshold on investment income annually, or equivalent to \$1M in savings, to ensure businesses can continue to have the flexibility to hold savings for new equipment, parental leave, or retirement. Changes will protect past investments and income earned from them.

3. Conversion of Income to Capital Gains ?This proposal would constrain the ability to reduce income taxes by converting dividends (and salary) that would otherwise be received from private corporations into lower-taxed capital gains. The majority of concerns relate to the short implementation timeframe and the complexity of the compliance burden.

3. UPDATE?As a result of this feedback from small business owners and farmers, our Government will not be moving forward with measures relating to the conversion of income into capital gains nor limit access to the lifetime capital gains exemption.

REMEMBRANCE DAY

On November 11th, we remember our veterans who have given their lives in times of war, and those who have served our country in peace. This year marks the 100th anniversary of the battles of Vimy Ridge and Passchendaele. Although 100 years have passed, we will never forget the sacrifices they made. We, as Canadians, are people of peace and it is because of our veterans that Canada remains this way. Lest we forget.

There will be Remembrance Day ceremonies at the Aurora Cenotaph at 11am on November 11th and the Richmond Hill Cenotaph at 11 am on November 5th. Join me in remembering our veterans.

Please contact my office to learn more about these topics, or raise concerns on federal matters. Phone: 905-773-8358, Email: Leona.Alleslev@parl.gc.ca, or drop in: 12820 Yonge St. suite 202, Richmond Hill, ON L4E 4H1.