

## MP'S REPORT: Tax Fairness

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Recently, there has been much discussion about reforming the way our Canadian tax system is structured, specifically concerning the proposed tax changes for Canadian private commercial corporations. (CPCC)

As part of the consultation process on the proposed tax changes my team and I hosted a Tax Fairness Town Hall on September 24 at the Aurora Public Library. I want to thank the 70+ community members who attended including doctors, lawyers, accountants, business owners, as well as the over 100 people who sent correspondence to my office.

I was pleased to review all the feedback provided. At the town hall, we had a productive conversation around not only the proposed tax changes (on income sprinkling, passive income, and capital gains), but more broadly on our tax system as a whole. This town hall showed the strength of our democracy; as we came together and had a profound as well as productive conversation.

The town hall highlighted a sentiment that these tax changes were negatively targeting small and medium sized businesses. I want to emphasize that our government values these businesses as critical generators of economic growth in our country. These businesses are not breaking the law, nor are they 'tax cheats', by simply taking advantage of the current tax structure as it is.

The following outlines the three proposed tax changes and the responses that I have received from constituents:

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 who is subject to 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 support the aim of the proposal; it is the practical execution which is the main concern.
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 have centered on the need for businesses to build a reserve fund to further invest in the business or plan for parental leave/retirement, or to mitigate the impact of a downturn which I completely understand as someone who has owned and operated two small businesses, one of which was a seasonal tourism business in Northern Ontario, after 9/11. Overall, there is limited support for this proposal and constituents believe that these concerns need to be addressed prior to implementing this proposed tax change.

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 of the proposed tax change if it were to take effect.

Our society needs small businesses, and accountants, and doctors, and lawyers, and all who contribute to our economy. Our economy thrives when each of us contributes to the best of our ability, regardless of whether we are incorporated, self-employed, salaried, or working part-time.

Thank you again to all who have engaged with me in this conversation. I have submitted a report, reflective of constituents' views, to the Minister of Finance, Bill Morneau. I know that this report will assist in informing government decisions on the proposed tax changes, as well as give way for future measures to be taken regarding overall tax reform in Canada.

### CONTACT ME!

If you would like to learn more about this topic, or raise any concerns with federal matters, please contact my office! Phone: 905-773-8358, Email: [Leona.Alleslev@parl.gc.ca](mailto:Leona.Alleslev@parl.gc.ca), or Drop in: 12820 Yonge St. suite 202, Richmond Hill, ON L4E 4H1.