

Canadians Want a Fair Tax System

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There has been a firestorm of media commentary over recent proposals by the Minister of Finance, Bill Morneau, to “play” with the tax system. Words like “loopholes,” “fairness,” “levelling the playing field” and such have been roaring across the media and in private offices.

The target of the changes is people who incorporate themselves and then draw income from their businesses while paying lower corporate taxes. The measure is attractive to those who employ it due to the large gap between personal tax rates and business tax rates. The change proposed is politically attractive because it plays to the “taxing the rich” theme so popular with the other political parties, who see part of their job as wealth distribution.

Approximately 50,000 Canadian families will be affected by this change, Finance Canada estimates.

The proposed change will affect business owners like professionals (doctors and lawyers for example) and farmers. They are able to distribute money to family members who earn less, allowing income to be taxed at a lower rate. This is not a “loophole” but exactly how the tax system was designed to operate. It was a factor in provincial negotiations with doctors, using federal tax rules to allow lower provincial payments for their work.

Writing in the Financial Post¹, tax lawyer David J. Rotfleisch declares the “proposed changes to the Income Tax Act amount to a blitz against business owners.” He says some of the examples used by Morneau in defence of the move are “...patently wrong. While the professional corporation may be paying tax at a lower rate, when the income is taken out by the professional, it is taxed at a higher rate.”

In part due to the protests from farmers and others, Morneau plans to impose a “reasonableness” test so this does not punish legitimate family businesses. That test will determine just how much work a family member actually does at a business, and if they can really lay claim to profits. But Rotfleisch notes: “This will be a bonanza for us tax lawyers who have fun litigating reasonableness, which will include labour and capital contributions to the business, risk assumed and previous returns or remuneration.” In other words, this government maneuver wastes precious resources by forcing Canadians into court to find out what is “reasonable.”

“This is about people using a corporate structure to shield their income and gain a tax advantage,” Morneau said. Canadians expect the government to curtail people using “fancy accounting schemes” to lower their tax burden, he said. “We want a tax system that is fair.” The Liberal government wants to maintain the progressive tax system that demands wealthy Canadians pay more because they can afford it.

The CHP has a Better Solution. The federal government should not collect taxes in a way that acts as a disincentive to savings and investing, and that discourages productivity and adversely affects economic

output. The Fair Tax is a fair and intelligent solution to the frustration and inequality of our current tax system – so complex that no one in the country, including the Finance Minister, understands it – and which subjects businesses to extraordinary burdens, just trying to file their returns.

Our Fair Tax is a comprehensive proposal that replaces all federal income taxes with a national retail sales tax, a pre-bate to ensure no Canadian pays federal taxes on spending up to the poverty level, and is dollar-for-dollar federal revenue replacement. The Fair Tax taxes us only on what we choose to spend on new goods and services, not on what we earn.

The CHP has a fresh approach to stimulating the economy and providing jobs for Canadians and helping them keep their hard-earned income. The CHP is committed to revitalizing the Canadian economy with a plan that is simple and transparent. If you have not done so already, join the CHP² and help bring in a tax system that is simple, fair, and just.

Footnotes

¹ business.financialpost.com/opinion/morneaus-tax-changes-are-so-complex-and-unfair-theyll-turn-accountants-bald-and-rich

² www.chp.ca/get-involved/