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5 Minutes for Business

Hammering Business – Finance Canada's New Crackdown

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These are not tweaks! The government has just proposed the most radical tax overhaul in 50 years. We're particularly worried about the impact on business from (1) a new tax on investment income in a corporation and (2) tough new rules for compensation in family businesses. Why is the government doing this?

The Minister says it's all about "fairness," and his consultation document compares the tax treatment of a business owner with that of an employee to point out corporations have "unfair" advantages. But, the comparison makes no sense—there are good public policy reasons for why owners are taxed differently.

Because unlike an employee, a business owner doesn't get a pension or health benefits or vacation pay. She invested her own money to get the business started. Or, she pledged her personal assets (house, car) as collateral for a loan. She has employees who depend on her. And, if nobody wants her goods or services next month, she does not earn a penny.

That's why in every advanced economy in the world, businesses can accumulate and invest after-tax retained earnings so they have money to get them through an economic downturn or to make big capital investments. One owner told us, "I keep most of the earnings in the company because we're trying to grow and because in construction, we go through tough cycles when business dries up."

The government wants to tax "passive" (invested) income. It says it's a crackdown on "high income individuals," but the rules would apply to all incorporated businesses in Canada, most of whom are restaurants, retailers, farmers and consultants—to punish them for saving and investing. It gets worse!

Finance Canada also expects to raise $250 million by cracking down on "unreasonable" salaries paid to family members, which it says diverts corporate income into lower tax brackets. But, to pull in $250 million, CRA will have to tax over $1 billion in salaries and audit hundreds of thousands of businesses. Imagine the litigation! You're paying your spouse $80K, but the CRA believes he or she should only be earning $50K. Do you go to Tax Court? An owner told us, "if my son had not worked 12 hours a day, my business might not have succeeded. Painting us all as cheaters is unfair and discriminatory."

Incredibly, Finance Canada has managed to design a set of tax measures that would hit the maximum number of businesses in the most complicated way for a small amount of revenue. The expected $250 million is less than 1% of the federal deficit.

Nobody supports tax evasion or loopholes. But these changes will punish legitimate businesses. And, they come after the government cancelled reductions in the small business tax rate, tightened rules on partnerships and started taxing work in progress. That's on top of new carbon taxes, raised CPP premiums and an increase in the EI rate. Our members are asking why this government keeps raising taxes on business.

We're not sure what to tell them, but there is an important test ahead. Finance Canada has launched a consultation even though it is clearly determined to move forward—the legislation is already drafted. So email or call your local MP to tell him/her the government is proposing to hammer business with tax changes that will hurt families and punish entrepreneurs. Only MPs have the power to slam the brakes on Finance Canada's runaway train.

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