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NORTH VANCOUVER'S MEMBER OF PARLIAMENT

October 20, 2017

Proposed tax reforms trump Trump

Until a few months ago, Donald Trump was the dominant topic of conversations as I canvassed North Vancouver doorsteps. Then, in July, our government launched a consultation process regarding proposed tax changes for incorporated private businesses.

Over a thousand constituents reached out in-person, by phone, letter and email. My office received so many meeting requests that the only practical way to meet with everyone was to convene a series of roundtable discussions. I met directly with over 75 concerned North Vancouver citizens.

No other issue has sparked such a volume of impassioned feedback during my tenure as your MP.

The Proposals

The three-point plan proposed:

- 1) To restrict the use of “income sprinkling” – paying family members who do not have a role in the business as a way of having to pay less tax;
- 2) To restrict the ability to convert dividend income from a private company into capital gains as a way to reduce tax paid; and
- 3) To limit the use of incorporated small businesses as vehicles for holding “passive income” (funds not being used actively in a business) so that returns are taxed at a lower rate than would be the case for other Canadians.

The Finance Minister sought feedback on these proposals, consulting with Canadians through October 2.

The stated objective of the exercise was tax fairness: Is it fair that some Canadians have access to tax advantages because they are incorporated while salaried Canadians do not?

Not a single person I spoke with took exception to the government’s goal of tax fairness. I think Canadians generally agree that the tax code must be fair. However, “fairness” can be difficult to define and assess and it should account for relevant differences.

What I Heard

Many people were upset with the use of words like “tax loopholes” in the consultation paper – implying, they felt, that somehow they were not complying with Canada’s tax rules. I do not believe that this was ever the government’s intent – and certainly it is completely legitimate for individuals to utilize provisions that exist in the

current tax code. However, there is no question the government’s early communications on the proposals could have been more thoughtful.

I heard limited concern regarding the first two proposals. Most felt the availability of “income sprinkling” only for incorporated Canadians is difficult to justify so long as it remains the case that spouses and children who are directly involved in a business and spouses who share significant risk, could continue to be compensated.

Similarly, most felt that tax approaches that convert incorporated income into lower-taxed capital gains is also difficult to justify – but they want to see specific concerns around intergenerational transfer of businesses and possible double taxation addressed.

However, the passive income proposal brought forward several concerns I believe require serious consideration. These issues include: potentially creating barriers for professionals seeking to take maternity leave; accounting for differences between small business owners and salaried employees – such as lack of certain benefits and the level of risk incurred; and concern about the potential effect of reducing the availability of early-stage venture capital.

Next Steps

Our Government understands that small businesses are the backbone of the Canadian economy. That is why on Monday of this week, the government announced Canada’s tax rate for small business will be lowered from 10.5% to 9%.

I have been working very hard to ensure that the concerns of North Vancouver residents are heard as the Government considers the feedback provided during the consultation on these tax proposals. I have been involved in many conversations on this matter in Ottawa over the past month. I am confident that the revised proposals to come forward in the next short while will ensure that we protect a business’s ability to incorporate, make investments, save for downturns and compensate family members who work in the business, while concurrently improving overall tax fairness.

Finally, my genuine thanks and admiration to the many people who reached out to me on this issue and for the respect and civility that characterized these interactions.

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