

TAX CHANGES

Small-business tax fight dominates Parliament's return



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The Liberal government's controversial tax changes to small-business rules dominated the agenda as MPs returned to Parliament for the fall sitting.

Conservative Leader Andrew Scheer led the attack on Monday as he faced Prime Minister Justin Trudeau for the first time since the Liberals announced the measures in July.

The Opposition Leader highlighted the fact that some of the people expressing concern about the government's plans include Liberal MPs.

Analysis: Liberals MPs' reactions to small-business tax plan show party's pitch is falling flat

"When will the Prime Minister listen to tax experts, entrepreneurs, and even his own caucus, and stop this attack on the middle class?" Mr. Scheer said.

Planned tax changes ignite heated Trudeau, Scheer exchange (THE CANADIAN PRESS)

Mr. Trudeau's responses gave no indication that the government intends to back down.

"We are going to ensure that wealthy Canadians do not have the option of using private corporations to pay lower tax rates than middle-class Canadians," he said. "That is something Canadians expect in terms of fairness."

The heated exchange comes at the end of a summer of gradually building public opposition to the changes. Accounting firms and MPs who held town halls on the issue were surprised to see hundreds of concerned citizens show up at meetings across the country.

It is not yet clear whether that opposition represents a noisy minority – as Mr. Trudeau has suggested – or a broader outcry.

The Liberal government is gaining some supporters in the debate, including a new alliance of unions and other groups called the Canadian Coalition for Tax Fairness.

The 19 groups in the coalition include major national unions such as the Canadian Labour Congress and Unifor, as well as advocacy groups such as Canadians for Tax Fairness and left-leaning think tanks, including the Broadbent Institute and the Canadian Centre for Policy Alternatives. Oxfam Canada, an international development agency, is also part of the coalition.

"Seeing how big the backlash really was, that's when we all collectively decided that we need to mount a counter-campaign to that," said Diana Sarosi, a women's rights policy and advocacy specialist at Oxfam Canada. "We really felt that if this time these tax measures don't go through, this is probably the end of the Liberal government trying to close some of these tax loopholes."

The announcement of the coalition came a day after about 300 physicians and medical students signed an open letter in support of the proposed changes.

The letter from doctors runs counter to the message from the Canadian Medical Association, which has strongly opposed the plan.

"Rising income inequality has negative population health consequences for rich and poor alike," the open letter states. "We need adequate tax revenues to fund social

programs such as affordable housing, pharmacare, social assistance, legal aid, and the health care system itself."

Finance Minister Bill Morneau announced the package of proposed reforms on July 18, and formal consultations close on Oct. 2. The changes relate to incorporated small businesses known as Canadian-controlled private corporations. The changes would restrict the ability of a business owner to "sprinkle" income to family members as a way of paying less overall tax unless they can prove the payments are "reasonable" compensation for actual work. Another change would restrict the use of a corporation as a vehicle for making passive investments unrelated to the business. A third change aims at preventing the conversion of income into capital gains as a way of paying less tax.

Business groups and accountants warn the measures will discourage entrepreneurship and could chase businesses and professionals – such as doctors – out of the country.

On Monday afternoon after Question Period, Mr. Morneau spoke at a conference organized by the Chartered Professional Accountants Canada.

Accountants have been among the loudest critics of the changes, calling them misguided and poorly drafted.

Calgary-based accountant Kim Moody won strong applause when he sharply criticized the minister's rhetoric and approach.

"It just comes across as not listening, as opposed to engaging," Mr. Moody said.

Mr. Morneau said the government is committed to the plan, but does want to hear technical suggestions from accountants and others.

"It's a consultation because we want to hear what your point of view is," he said. "But we're not going to step back from our objective. It's what we ran on as a government."