Ottawa's tweaks to proposed tax reforms don't go nearly far enough

Canada's Finance Minister Bill Morneau speaks at a news conference on Parliament Hill in Ottawa on Oct. 19, 2017.

CHRIS WATTIE/REUTERS

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I think that British publisher Sir Ernest Benn had it right when he said: "Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly, and applying the wrong remedies."

From the moment Canadians returned from vacation this summer and reviewed the tax reform package released by the Liberals on July 18, there has been a backlash the likes of which I have not seen before. The remedies dreamed up and announced by Finance Minister Bill Morneau were so full of holes that, if there were such thing as a product recall for bad tax ideas, these proposals would have faced it.

This week, the Prime Minister joined Mr. Morneau in attempts to backpedal and win over critics of the tax reform they have put forward. What was clear, in listening to Justin Trudeau talk about the taxation of business owners, is that he knows so little – and knows it so fluently (to borrow from novelist Ellen Glasgow). There are some things that Canadians in general should be very concerned about, even with the tweaks announced by Mr. Morneau this week. While the Liberals have constantly talked about "fairness" when talking about these proposals, there are some inherently unfair things that need addressing.

Paying lip service to reading submissions

There were more than 21,000 submissions made to the government by the Oct. 2 deadline for comments. It doesn't take a rocket scientist to do the math here. Even if the Department of Finance spent 10 minutes on each submission, it would take them 438 eight-hour days to review them. Even if they shredded two-thirds of them without a glance, it would still take almost half a year to review the ones they cared most about. Yet, just two weeks after the submissions were made, the Liberals are now announcing their revisions. Really? And Canadians are supposed to believe that their concerns and, more important, their ideas, are being taken seriously? Is this fair? I have said from the start that the government needs to go slow to get this right.

Failing to define their "fair share"

The government has said repeatedly that the wealthy need to pay their fair share. Currently, the top 1 per cent of income earners pay 20.5 per cent of the taxes in Canada. The top 5 per cent pay 40.3 per cent, and the top 10 per cent pay 54.2 per cent. If this isn't fair, then the onus is on the Liberals to define what is fair. Mr. Morneau – or perhaps Mr. Trudeau, who seems to want to speak for the Finance Minister – should come out and tell Canadians what portion of tax revenue they are targeting the 1 per cent, and top 10 per cent, to pay. This would be fairer than simply implying that they'll keep increasing taxes until they feel the balance is right.

Pensions of MPs are higher than business owners

One of the July 18 proposals was to curtail the amount of savings accumulating inside private corporations. I've mentioned in the past that passive income in a corporation is already subject to higher rates of tax than earning that same income personally – even without changing the rules. The problem is that, for many business owners, those savings are for retirement. It's their "pension." This week, Mr. Morneau announced that the changes will be tweaked to allow $50,000 of passive income annually to be earned inside a corporation, above which more punitive tax treatment applies. While this is a step in the right direction, it's not good enough. If a small corporation earns $50,000 of passive income annually to be paid out as a "pension" to the owner, this doesn't put the owner on the same footing as even their MPs, who, based on a report on the parliamentary pension plan, receive an average pension of $59,307 (senators receive an average of $67,461) after six years of service. Is this fair? Hardly.

Pensioners can split income more effectively than business owners

One proposal that the Liberals seem intent on implementing without much change is the restriction on business owners paying dividends to family members who aren't contributing labour or capital to the business. The fact is, MPs, senators and any employee with a pension plan can transfer up to 50 per cent of their pension income to a spouse every year. Business owners don't generally have pension plans and can't do this. So, business owners split income by paying dividends instead. The new changes, however, will eliminate the ability to split income with a spouse who doesn't contribute to the business – unlike the opportunity pensioners have. Hardly fair.

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