



RESPONSE TO PETITION

Prepare in English and French marking 'Original Text' or 'Translation'

PETITION No.: **421-02568**

BY: **Ms. RAITT (MILTON)**

DATE: **JUNE 20, 2018**

PRINT NAME OF SIGNATORY: **MR. JOËL LIGHTBOUND**

Response by the Minister of Finance

SIGNATURE

Minister or Parliamentary Secretary

SUBJECT

Tax system

ORIGINAL TEXT

REPLY

The Government of Canada made a commitment to invest in growth while fixing a tax system where high-income individuals are able to use their private corporations to obtain unfair tax advantages. The Government has acted on both elements of this commitment.

First, the Government has proposed to lower the federal small business tax rate to 10 per cent as of January 1, 2018, and then to 9 per cent as of January 1, 2019. For the average small business, this will leave an additional \$1,600 per year for entrepreneurs and innovators to reinvest in their business, and create jobs.

As the Government moves ahead with the small business tax rate reduction, it is taking action to make sure that the small business rate is not used to gain unfair tax advantages. In Budget 2018, the Government is proposing to limit the ability of high-income earners to use private corporations to hold large sums in passive investment portfolios and receive significant personal tax advantages. The design of these proposals takes into account feedback received from Canadians following the release of a consultation paper in July 2017.

The Budget 2018 proposals to limit tax deferral opportunities related to passive investments would give flexibility to small business owners to reinvest in their companies or save for personal reasons such as a parental leave, while reducing the tax advantage used by the wealthiest. The changes will impact less than 3 per cent of all private corporations, and ninety per cent of the tax impact will fall on households that are in the top 1 per cent of the income distribution. The proposed measures will enhance the fairness of the tax system in a manner that is more targeted and simpler than the approaches put forward in the July 2017 consultation paper, while protecting the ability of small businesses to invest and grow. The changes will take effect on a go-forward basis, for taxation years that begin after 2018.

The Government is also moving forward with measures to limit income sprinkling using private corporations. Before the Government began taking action, someone with a spouse and two children making \$300,000 could, in some circumstances, save about as much on tax as the average Canadian earns in a year—\$48,000.

During the consultations, the Government heard concerns that its original proposal to address income sprinkling was too complex and created uncertainty for family members. Taking this feedback into account, in December 2017, the Government moved forward with a simplified proposal, while ensuring that the rules will not impact businesses to the extent there are clear and meaningful contributions by spouses, children and family members. These proposals are to be effective for 2018 and subsequent taxation years.

With the changes announced in Budget 2018 and in the fall of 2017, the Government has made clear its intent to cut taxes for all small businesses while limiting certain unfair advantages used by the wealthiest. These actions are part of the Government's plan to grow the economy, create jobs and, most of all, help the middle class succeed.