

Employment & Labour, Legal Suppliers

Federal government signals crackdown on tax loopholes

By AdvocateDaily.com Staff



Any efforts the federal government makes to close tax loopholes will have a big impact on small businesses, including lawyers and doctors, says **INTEGRIS Pension Management Corp.** co-founder and CEO **Jean-Pierre Laporte**.

The federal **budget** tabled on March 22 hinted Ottawa would be targeting tax measures deemed to give an unfair advantage to high-income Canadians who use private corporations. In the crosshairs appears to be income sprinkling via corporations, holding passive investment portfolios inside a corporation, and converting its regular income into capital gains.

The federal government intends to release a discussion paper in the near future about its view of those tax rules and policy responses, reports the *Globe and Mail*.

"It's almost as if the government wants to increase the tax rate on small business owners by disallowing certain accommodations the law currently provides," Laporte tells AdvocateDaily.com.

"The bigger question from a public policy point of view is: will it be good politics to go after professionals and business owners who are creating jobs for other people and penalizing them for being successful and earning more than the average person?"

Laporte says when the government adopted the concept of a small business tax rate that's lower than regular corporate or personal tax, it was to encourage entrepreneurs "to get off the ground, hire people and produce widgets."

He explains that under income sprinkling, earnings left within a company are taxed at a lower rate than when they're withdrawn and subject to the personal income rate.

"So, there's a massive deferral of taxes that takes place," Laporte explains. "Of course the accountants, when they're looking at the law, say, 'You have a choice, you can take \$1 million in salary and bonus and pay half to the government, or you can only take what you need to live and the rest will stay inside the corporation and be invested.'"

Laporte wonders if the federal government will impose conditions on small businesses similar to Quebec where incorporated professionals with less than three employees pay the higher provincial corporate tax.

"If you are a professional who has incorporated and you have less than three employees on the payroll, Quebec denies you the ability to be taxed at the lower active business rate," he says. "You have to pay the same tax as every other corporation, so Quebec has already moved forward in dealing with this perceived loophole — at least insofar as provincial corporate tax is concerned."

However, Personal Pension Plans, or PPPs — registered plans for incorporated professionals and owner-operators of businesses — could be used as both protection and to reduce their tax burden in an era when governments are trying to squeeze more corporate tax dollars from businesses.

"So essentially these individualized pension plans give professionals access to the same type of program they would have if they were a part of a larger corporation or the civil service," Laporte says.

He says a PPP allows people to build larger retirement funds than what is possible with an RRSP. There are also greater tax benefits.

"So not only do you have more money to retire on than if you had stayed in an RRSP, but you also get tax assistance in the process," Laporte says.