



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

*Julie Dabrusin*

Member of Parliament  
Toronto—Danforth

Thursday September 7, 2017

Dear Minister Morneau,

I am writing in respect of your consultation on tax planning using private corporations. At the outset, I would like to commend you on the fact that our economy is currently growing and I was happy to see that our GDP has increased by 4.5% in the second quarter of 2017.

I would like to share with you the concerns I have heard from many of my constituents about the impact that the consultation proposals will have on their ability to support their families, pay off their debts, and grow their businesses. In addition, they are concerned that these proposed changes may result in a loss of innovation and skilled professionals in Canada. I believe they have raised some valid concerns regarding the breadth and complexity of the proposal that should be addressed through this consultation and reflected in any legislation that may potentially be tabled in the House of Commons for further review.

The consultation states that there is an alarming trend indicating that the 50% increase since 2001 in the number of Canadian-controlled private corporations is a result of individuals incorporating for tax planning purposes. Individuals and business owners that have private corporations, or are considering future incorporation have taken the time to express their feelings to me that the consultation lacks insight into their industries, their personal and business debts, their business structures (including pay roll), their retirement plans, and the personal risks taken to keep their fledging or specialty businesses afloat. They also point out that there are many reasons why a business may choose to incorporate beyond tax planning.

I've heard that, although two individuals from the consultation may appear identical in every way except for what their households pay in tax as a result of one individual being an employee and another individual having an incorporated business, there are greater differences in their careers and employment situations than simply their incorporation status and household tax rate. Examples of how these proposed changes greatly concern my constituents about their future include:

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- An owner of a medical innovation start-up who spoke about loss of incentive and financial protection for his start-up initiative and the difficulties tied to retaining his employees. For financial security, the better alternative would be to be an employee of a university or hospital.
- Film and television industry professionals who explained how retaining income in their corporation can be a means of achieving income averaging, allowing them to maintain their expenses in leaner years or between contracts.
- An individual who incorporated due to insurance needs, for example errors and omissions that insurance needed for certain, grants, programs or tenders.
- Doctors who incorporated based on agreements reached with the provinces, who see the ground now shifting beneath this agreement.
- I have also heard from people who run small businesses in industries that rely on a strong economy to thrive, such as owners of small architecture firms who are concerned that the passive income they retain in their corporation to maintain employee salaries and other expenses associated with business operations during economic downturns would be caught up in these proposed tax changes.
- Those that used passive investment, while taking a smaller salary to ensure sufficient retirement security in the future.

I am certain you understand the complexity of the proposals before us. An important part of fairness is transparency and understanding. I was given a comparative example which illustrated that the complexity of these proposals was equivalent to substituting the human circulatory system with a new one that has not been tested for effectiveness.

Hyperbole or not, as proposed, the magnitude of the changes requires further consultation and time for Canadians to be properly engaged in this consultation. I would like the government to commit additional time so as to further understand the impacts of the proposals. Concerns in the proposed legislation that have been brought to my attention include:

- The term “reasonable” is used 21 times in the legislation, leaving significant areas of the legislation still to be interpreted.

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- The likelihood that compliance costs associated with the legislation will be increased for Canadian small businesses.
- The amount of discretion the Canada Revenue Agency is given under the proposed legislation.
- The gender impact of the legislation on female business creators, or females in incorporated family businesses.

The changes proposed imply wide-ranging and far-reaching consequences. As a result, their complexity makes it difficult to determine how they will interact with current measures. We require time to review the proposals to adequately assess how they can be simplified and how they will impact the existing tax structures.

My constituents are concerned that these proposals will go beyond the intended purpose of leveling the playing field, and instead create a landscape that discourages individuals from creating innovative start-ups while prompting businesses to relocate outside of Canada or be absorbed by larger corporation.

On behalf of my constituents I am asking that the government brings greater clarity to any proposed tax rule changes, and that the government ensure changes are sufficiently narrow so as to not negatively impact Canadian small businesses, innovation, and economic growth.

I would be happy to discuss this further and to provide you with some more specific examples of the concerns that have been raised by some of my constituents.

Yours truly,

Julie Dabrusin

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