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Myths / Comments	***Facts***
1. *"…our Government is taking steps to….close loopholes…..that are only available to some….".*[1]	1. There is no such thing as tax "loopholes". Such a phrase is used to influence people who do not have an appreciation of the complexity of tax law.[2] Taxpayers have relied upon existing law dealing with private corporations and their shareholders for almost 50 years. [3]
2. *"And it starts by making sure that we all pay our fair share of taxes – with no exceptions."*[4]	2. There is no "fair share". Each taxpayer needs to comply with existing tax laws. No more, no less.
3. *"To clear some things up: 1) #TaxFairness changes would only take effect going forward."*[5]	3. False. The proposed legislation for the "dividend to capital gains conversion rules" require consideration of transactions pre-July 18, 2017 that will cause, in many cases, the appearance of tax as a result of such historical transactions. That is, in effect retroactive / retrospective taxation.[6]
4. *"If you are investing profits back in your business or investing to create jobs, these changes will not affect you."*[7]	4. False. While this statement may be directed towards the passive income / asset proposals, the "income sprinkling" and "dividends to capital gains" conversion rules still apply. At best, this statement is misleading.

[1] Source – July 18, 2017 Minister's Letter.
[2] See Karen Stillwell's blog about the language of "loopholes" at http://connorsstilwell.com/viewpoint-meaningful-questions-must-answered-tax-reform-private-corporations-implemented/
[3] Source – July 18, 2017 Minister's Letter.
[4] Source – July 18, 2017 Minister's Letter.
[5] Source - @Bill_Morneau August 28, 2017 tweet.
[6] See the change to sections 84.1 that require a look back to pre-July 18, 2017 non-arm's length transactions. If such transactions between non-arm's length persons took place, this can dramatically affect transactions between related parties today. See also proposed subsection 246.1(3) which can reduce the capital dividend account for historical transactions that relied on existing law. Lastly, the changes to the capital gains deduction rules require that any appreciation in value of the subject property be revalued for any time that the property was held by a trust or for any time that the property appreciation accrued when the individual was a minor which, in effect, is a "look-back" test to tax appreciations in value for periods of time prior to July 18, 2017.
[7] Source - @Bill_Morneau August 28, 2017 tweet.

5. *"Our proposals will not raise taxes. We have lowest #smallbiz tax in the #G7 and we're keeping it that way."*[8]	5. False. The passive asset / income proposals will result in a fully distributed taxation rate on passive income of greater than 70% which is >20% higher than it is today. The income sprinkling proposals will dramatically increase family taxation burdens for the middle class business owner.[9] The dividend to capital gain conversion proposals will cause sales of businesses to family members to almost double their taxation burden.[10]
6. *"We're consulting about closing unfair loopholes. We will NOT raise taxes on small business."*[11]	6. See #1 above. Existing laws are not "loopholes". Regarding raising taxes, the Minister is correct that corporate tax rates are not being raised but the overall statement is misleading…see #5 above.
7. *"Our proposals will protect #smallbiz ability to invest, grow & create good, middle-class jobs."*[12]	7. False. As an example, the "income sprinkling "proposals cause havoc for start-up businesses to obtain financing from family, often the only source available.[13] In addition, compliance costs for small businesses will increase greatly.
8. *"If your family members make a meaningful contribution to your business, these changes will not affect you."*	8. False. Presumably the Minister is talking about the "income sprinkling" proposals in this tweet but ultimately there are 2 other sets of proposals that have application. The proposed rules that define "meaningful" (which is not the actual phrase in the legislation) are overly complex and do NOT include the silent contributions of the stay-at-home spouse / common-law partner. The administration of these proposals will be very difficult.[14]

[8] Source - @Bill_Morneau August 28, 2017 tweet.
[9] See http://moodysgartner.com/private-corporation-tax-proposals-unquestionably-harm-middle-class-business-owners/ for an example.
[10] This is because of the change to section 84.1 which will cause an otherwise capital gain on a disposition a business to a family member to be re-characterized as a taxable dividend.
[11] Source - @Bill_Morneau August 28, 2017 tweet.
[12] Source - @Bill_Morneau August 28, 2017 tweet.
[13] This is because related party who is not active in the business and receives income receives from a corporation will be considered "split income" and thus will be taxed at the highest marginal tax rate. See http://moodysgartner.com/private-corporation-tax-proposals-unquestionably-harm-middle-class-business-owners/ for a simple example that illustrates this.
[14] The reasonableness tests are contained in amended section 120.4 and are very broad.

9. *"Our proposals are targeted only at specific loopholes. Most #smallbiz won't be affected. Look for yourself: fin.gc.ca/activity/consul…"*[15]	9. False. The income sprinkling proposals will affect ALL businesses – large or small – that currently pay dividends to inactive spouses / common-law partners or adult children. They will also apply to ALL businesses that wish to transfer their business down to the next generation. And, if the passive income / asset proposals are implemented as discussed in the consultation paper, will dramatically impact the ability for entrepreneurs to save funds for rainy days, retirement and future business expansion.
10. *"When the rules meant to help businesses grow, are being used for personal gain - we all lose. See our proposals: fin.gc.ca/activty/consul…"*[16]	10. Save personal tax? How? Because you can build up assets using corporate tax rates and because business income is now integrated as a result of the eligible dividend regime introduced in 2006? And because personal tax rates dramatically increased and corporate tax rates decreased? Or because self-employed professionals are able to legally incorporate?[17] At worst, the build-up of passive assets is a tax deferral because income tax will be paid upon withdrawal from the corporation, the death of the shareholder or the shareholder becoming a non-resident. This statement is misleading.

[15] Source - @Bill_Morneau August 28, 2017 tweet.
[16] Source - @Bill_Morneau August 23, 2017 tweet.
[17] If the professional who incorporates would otherwise be an employee, the "personal services business" rules under section 125 of the Income Tax Act would apply to severely punish such a person from incorporating.

11. *"Morneau contends the proposed change to passive investment income will have negligible impact on anyone making less than $150,000 per year. "Under this amount there is very little benefit from the loophole because you could simply max out your RRSP and TFSA (tax free savings account)," said Lauzon."*[18]	11. False. To maximize RRSP contributions, you need "earned income".[19] To pay salaries out of your corporation, you will pay income tax at graduated tax rates.[20] And the RRSP contribution room does not increase until the following year. TFSA contribution limits are only $5K. How you could avoid the passive asset / income rules with an approximate $25K RRSP contribution and $5K TFSA contribution escapes logic.
12. *"Trudeau characterized the changes as being in step with his oft-repeated promise to help the middle class, even if it requires Canada's wealthiest to "pay a little more.""*[21]	12. See #9 above.
13. *"…we also know that corporate structures are being used to reduce personal taxes."*[22]	13. See #10 above.
14. *"…This means that some of the highest-income earners are effectively being taxed at a much lower rate than everyone else. It is legal, but as a former business owner and high-income earner myself, I do not think it is right."*[23]	14. See #10 above.
15. *"What that means is an incorporated professional could be taxed at a lower rate than a salaried nurse practitioner or police officer making much less a year".*[24]	15. See #10 above

[18] Source – August 23, 2017 Canadian Press article https://globalnews-ca.cdn.ampproject.org/c/globalnews.ca/news/3711319/bill-morneau-small-business-tax-plan/amp/
[19] "Earned income" is defined under subsection 146(1) of the Income Tax Act that, overly simplified, is salary type income.
[20] And the salaries need to be "reasonable" in the circumstances pursuant to existing law – section 67 of the Income Tax Act. If such salaries are not reasonable in the circumstances then no deduction would be available to the payor corporation and thus double taxation risk exists.
[21] https://globalnews.ca/news/3714143/justin-trudeau-no-apologies-tax-changes/
[22] Source September 5, 2017 Globe and Mail https://beta.theglobeandmail.com/report-on-business/rob-commentary/tax-changes-are-about-levelling-the-playing-field/article36161429/?ref=https://www.theglobeandmail.com&
[23] Source – September 5, 2017 Globe and Mail https://beta.theglobeandmail.com/report-on-business/rob-commentary/tax-changes-are-about-levelling-the-playing-field/article36161429/?ref=https://www.theglobeandmail.com&
[24] Source – September 5, 2017 Globe and Mail https://beta.theglobeandmail.com/report-on-business/rob-commentary/tax-changes-are-about-levelling-the-playing-field/article36161429/?ref=https://www.theglobeandmail.com&

16. *"For passive investment income to provide an advantage over and above what is available to every Canadian through RRSPs and TFSAs, a business owner needs to earn more than $150,000."*[25]	16. See #11 above. False.
17. *"That is because the more you earn, the more you stand to benefit from these tax-planning strategies. No wonder some estimate that two thirds of the wealthiest 0.01 per cent own a CCPC."*[26]	17. False. All private business owners, small to large will be affected by these proposals. See #7 and #9 above. And why does it matter if 2/3's of the wealthiest 0.01% own a CCPC?? Very misleading and not relevant to the discussion.
18. *"For those business owners and professionals who have saved and planned for their retirement under the existing rules, I want to be clear: We have no intention of going back in time. Our intent is that changes will apply only on a go-forward basis and neither existing savings, nor investment income from those savings, will be touched."*[27]	18. False. See #3 above.
19. *"Farm owners will continue to receive a lifetime capital gains exemption of up to $1-million for farm property, facilitating the transfer of their business to the next generation".*[28]	19. False. The ability to access the capital gains exemption for farmers – and others – will be significantly harmed by these proposals. See #3 and #5 above and especially footnote #6.
20. *"At the heart of these proposals is our promise to the middle class, and a belief that every Canadian should feel confident that they have the same opportunity to succeed and benefit from a growing economy. That confidence starts with knowing everyone is treated fairly".*[29]	20. See #7 above. These proposals will hurt middle class business owners.

[25]Source – September 5, 2017 Globe and Mail https://beta.theglobeandmail.com/report-on-business/rob-commentary/tax-changes-are-about-levelling-the-playing-field/article36161429/?ref=https://www.theglobeandmail.com&
[26] Ibid;
[27] Ibid;
[28] Ibid;
[29] Ibid;

21. *"Speaking of tax changes, I want to be clear: people who make $50,000 a year should not pay higher taxes than people who make $250,000 a year."* [30]	21. Very misleading and false. Under no scenario is this possible. Even if all of the $250,000 was taxed at the lower 15% corporate tax rate, such corporate tax would be $37,500. The additional tax that would be paid by way of a dividend distribution – when distributing the net after-tax amount of $212,500 would be approximately $85,000 assuming high rate non-eligible dividends.[31] A person making a salary of $50,000 would pay approximately $9,000 in tax all-in (assuming resident of Alberta).
22. *"But speaking to a radio station in Kelowna, B.C., where the Liberal retreat is taking place, Prime Minister Justin Trudeau said the proposed changes only affect those with incomes high enough to exhaust the other options for tax-assisted savings. "If you're making $150,000 a year or less, you can max out your RRSPs, you can use the tax-free savings account," Trudeau told radio station AM1150. "The private corporation route only really benefits people making more than hundreds (of) thousands of dollars." Later in the day, pressed on that claim by reporters, Trudeau stood by it. "As soon as you start talking about the small percentage of people who have or who can max out both their RRSPs and their tax-free savings account, you're talking about the wealthiest Canadians," he said."* [32]	22. False. There are many things wrong with these statements. See #5, 7, #8, #9, #10 and #11 above. And for an example that simply rebuts this statement, see http://moodysgartner.com/private-corporation-tax-proposals-unquestionably-harm-middle-class-business-owners/

[30] Source – CBC News article September 6, 2017 http://www.cbc.ca/news/politics/trudeau-small-biz-tax-changes-tweaks-1.4277510
[31] Assuming a highest non-eligible dividend rate of 40% which is actually low when looking at the non-eligible dividend tax rates across Canada. If the recipient had no other sources of income and could use graduated tax rates, the personal tax on non-eligible dividends would be approximately $55,600 or approximately $35,000 if they were eligible dividends.
[32] Source – September 7, 2017 National Post http://nationalpost.com/news/politics/scheer-calls-tax-proposal-crippling-but-trudeau-insists-it-wont-affect-those-making-less-than-150000

23. *"For the small business owner that is earning $73,000 or less, these tax changes aren't going to impact them at all. In fact, the passive income issue which is what some people are worried about….it really can't impact anybody under $150,000 because up to that level they are able to put money into an RRSP and TFSA."*[33]	23. False on both accounts. See http://moodysgartner.com/private-corporation-tax-proposals-unquestionably-harm-middle-class-business-owners/ for a rebuttal of the $73K comment. For the passive income / asset, this is a recycled comment. See #11, #16 and #22 above.
24. *"MYTH: These changes are a tax hike on small businesses. Fact: Canada has the lowest small business tax rate in the G7. We are not increasing the small business tax rate."*[34]	24. Absolutely false. All 3 proposals broaden the base that is subject to tax resulting in overall tax increases. The "consultation" documents even provide estimates. "Tax hikes" are more than just a rate increase. Extremely misleading.
25. *"We are not indifferent to a tax system that gives an incorporated professional who makes $300,000, as an example, an ability to reduce their taxes by the same amount as the average Canadian earns; $49,000".*[35]	25. The speaking point has changed a bit from PM Trudeau's speech referenced in #21 above. Now, the implication here is that an incorporated professional who earns $300K can "reduce" their taxes by the same amount of as the "average Canadian" earns. This statement is completely untrue. This is no reduction of taxes as a result of a lower corporate tax rate in a private corporation. The ability to pay corporate taxes is a function of how corporations and their shareholders pay tax and Canada is not out of step with this system….virtually ALL countries around the world have lower corporate tax rates than personal income tax rates. Once the funds are withdrawn from the corporation or the shareholder dies or becomes a non-resident of Canada, the funds will be taxed again at a rate that is integrated with all individuals. Very misleading.

[33] Minister Morneau's quotes from September 10, 2017 CTV Question Period http://www.ctvnews.ca/video?clipId=1205522
[34] September 12, 2017 tweet from @FinanceCanada. https://twitter.com/financecanada/status/907685580145917952
[35] September 18, 2017 speech by Minister Morneau to CPA Canada One Conference in Ottawa. See 8:25-8:40 of the video.

26. *"We're not indifferent to a tax system where the single mother of two children of a professional that are under 18; so a single professional woman with a child that is 12 and 14 actually pays a higher tax rate than a married woman with two children that are 18 and 20."*[36]	26. There are no details such as numbers attached to this statement. Is the single mother incorporated or unincorporated? How much income does the single mother vs married woman make? Is the married woman incorporated or unincorporated. Is the implication that the married woman can income split with her adult children? Severely lacking details and until such details are provided, the example is non-sensical.
27. *"The current tax system is unfair. An incorporated professional making hundreds of thousands of dollars who takes advantage of the current rules could end up paying a lower tax rate than a middle class employee. We are going to fix this while taking into account the feedback received during these consultations."*[37]	27. It is impossible for an incorporated professional to pay a lower rate of tax as compared to a middle class employee when you consider the deferred amounts in the corporation that will be taxed upon withdrawal, death or becoming a non-resident of Canada. Very misleading.

[36] September 18, 2017 speech by Minister Morneau to CPA Canada One Conference in Ottawa. See 8:42-9:-2 of the video.
[37] Department of Finance press release October 3, 2017. http://www.fin.gc.ca/n17/17-091-eng.asp