



Politics trump good government practice

Based on a promise of tax reform in their election platform, the federal government recently reiterated their unwavering commitment to chip away at alleged unfair tax advantages for the wealthy. Their message was clear on December 13th, when Finance Minister Morneau essentially dismissed a Senate consultation report recommending the withdrawal of the proposed reforms and a full review of the tax system. Instead he announced limited clarifications to the new rules restricting business' ability to distribute income to family members.

Notwithstanding the ambiguity and complexity attached to each tax change announcement, we believe one critical mistake is playing out with governments across the country: an increasing distrust toward the process of public consultation. It is extremely concerning when public trust is eroding in one of the few mechanisms the public has for the specific purpose of building trust, understanding, and advancing projects and programs.

The government says it is listening, but they are clearly not hearing—resorting to little more than staged photo opportunities to give the appearance of consultation. There are many examples of governments turning consultation processes into largely 'window-dressing' events, particularly when they announce new policy mere hours or days after a consultation deadline. In the case of private corporation tax reform, the federal government has taken things a step further. For a second time, Minister Morneau released game-changing tax proposals in the days leading up to the holiday season, a time when those affected are least able to evaluate and respond. Further, there is no indication the government wants or plans to accept further feedback. Canadians require more than the appearance of consultation by their elected officials, we need genuine, two-way public consultation on issues.

The December 13th announcement effectively dismissed the Senate Committee findings and any possible benefits that could have been derived from their extensive consultation process. To which, Minister Morneau only commented that his understanding was that the Senate Committee's recommendation was not unanimous. Based on this line of reason, one might take from this that our government discounts the 32 submissions and more than 138 intervenors from across the country who conscientiously took the time to address the committee.

With this announcement, the federal government is demonstrating they value political principle over substantive, good governance. They maintain their stance is based on fairness for all taxpayers, but have yet to produce an assessment of the broader impacts of their proposals. For instance, the most recent clarification of who can and cannot distribute income to family members will by design prohibit professionals in the service sector from using income splitting to reduce their family's income tax obligation. It has been noted that many professionals will have to adjust the availability of their services, including doctors. But the government has produced no indication this type of unintended consequence has been considered.

And the new clarifications offered do not appear to value the contribution of spouses who provide risk capital and support the family unit while many business owners work 40+ hours-per-week to maintain

their businesses and provide employment. The only positive change is that owners and their spouses aged 65+ can split dividend income, similar to pensioners' ability to average their pension income.

To offset the predominantly negative consequences of the tax proposals, Mr. Morneau contends lowering the small business tax rate by 0.5% will stimulate business investment. However, the potential savings for each company maxes out at 2,500 dollars—not enough to create a summer job let alone a permanent position!

The confidence of taxpayers in public institutions is quickly eroding. Prior to the current attempt at reform, the government hinted they would attempt to increase revenues first by applying a tax to employee health and then to workplace benefits. Both proposals were withdrawn once the overall consequences were understood. Now it appears they feel they can force through changes on political principles and not sound evidence of achieving their stated goals of fairness and prosperity. That our leaders would continue to support such momentous change without a full evaluation of the consequences begs the question of whether they are governing or simply jockeying for political expediency.

While the government has done all it can to further limit dialogue on this issue, you can expect to hear continued criticism from businesses and professionals. Rather than allow the federal government to tinker with a tax system without regard for the consequences on individuals, families, businesses, health professionals and the whole economy, we need to insist our government complete a comprehensive review of the tax system to ensure fairness, competitiveness, and simplicity.

The future prosperity of businesses, employees and our governments depend on it.

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