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**Small businesses, Trudeau government headed for autumn tax showdown**

**Liberals say they are closing 'unfair' loopholes — but critics and Conservatives see attack on small business**

By Andy Blatchford, The Canadian Press Posted: Sep 04, 2017 2:24 PM ET Last Updated: Sep 04, 2017 2:24 PM ET

Prime Minster Justin Trudeau on Friday defended proposed changes to tax rules for small businesses, but said the government it take the feedback it is hearing, much of it negative, into consideration. (Liam Richards/Canadian Press)

Ottawa's fall parliamentary session is a couple of weeks away, and Canadians are already getting a preview of what could be the season's main event: a scrap over the Liberals' proposed tax changes.

The Trudeau government's controversial plan is designed to close loopholes that it says give a growing number of wealthy, small-business owners an unfair tax advantage over other Canadians.

Prime Minister Justin Trudeau himself has rejected criticism over the plan, arguing Friday he "will make no apologies" for his commitment to fairness.

But when it comes to the tax proposals, his Liberals have left themselves room to manoeuvre, if necessary.

The mid-July announcement launched a 75-day consultation period, ending Oct. 2, to allow people to digest the complex proposals and provide feedback that could lead to adjustments.

At the time, Finance Minister Bill Morneau admitted [**he anticipated some pushback**](http://www.cbc.ca/news/politics/morneau-tax-changes-wealthy-consultations-tuesday-1.4210201).

His prediction is coming true.

Opposition has been growing through the summer and it's clear critics of the plan won't watch the changes go through without a fight.

An organized movement argues the tax incentives targeted by the Liberals are critical for Canada's economically crucial small-business sector. It insists the current tax structure is necessary for entrepreneurs, including those in the so-called middle class, who take personal financial risks when they decide to open a company.

**3-part plan targets 'unfair playing field'**

The backlash has been led by a coalition of more than 40 industry associations as well as the government's Conservative rivals. Individuals — including tax professionals, doctors and engineers — have also spoken out against the changes.

At the centre of the storm is a three-part plan to eliminate tax loopholes and even out what Morneau describes as an "unfair playing field."

One change seeks to eliminate an incentive that enables small-business owners to use their corporations as a way to shift some of their income to family members who face lower personal tax rates, even if those relatives are not active in the business. Ottawa says addressing unfair "income sprinkling" with these changes would provide an estimated $250 million per year in additional federal revenue.

'We're not misunderstanding this document...
This is a very, very foolish policy'- Joel Cohen, director of Cohen Sanderson

Another change would limit the use of private corporations to make passive investments in stocks or real estate. The proposed change is designed to ensure that taxes on passive investments inside a corporation are treated the same way as those outside the company.

The third reform would limit the ability to convert a corporation's regular income into capital gains, which are typically taxed at a lower rate.

The Liberals have maintained the changes are aimed at creating more fairness in the system, while many opponents have described them as a cash grab.

Complaints over the proposals have washed into riding offices of now-jittery Liberal backbenchers, who will explore the issue at this week's caucus retreat in Kelowna, B.C.

inance Minister Bill Morneau introduced the proposed tax changes at a press conference in Ottawa in July. (Sean Kilpatrick/Canadian Press)

Last week, Morneau held an hour-long conference call with his fellow Liberal MPs to reassure them that the government is open to adjustments to avoid unintended consequences. He gave them ammunition to fight back against what the feds see as misinformation circulating about the proposals.

* [**Finance Minister Bill Morneau proposes tax changes to close loopholes for wealthy**](http://www.cbc.ca/news/politics/morneau-tax-changes-wealthy-consultations-tuesday-1.4210201)

He has also scheduled a meeting with journalists in Tuesday to confront the uproar.

But some tax experts who have studied the proposals closely still have significant concerns.

**Critics see threat to entrepreneurship**

"We're not misunderstanding this document," said Joel Cohen, director of Cohen Sanderson Inc. in Toronto, who added he has discussed the document with some of the best tax experts in Canada.

"This is a very, very foolish policy. It's very poorly conceived, it was rushed through.

"It was initiated by bureaucrats who have never invested in a business, who have no idea what it's like to get that next sale and to pay the rent and to have employees and have all this exposure — and to not know what tomorrow's going to bring."

Cohen, who has been a public accountant since 1969, argues that despite the risks, entrepreneurs don't have the same protections as employed people, many of whom benefit from severance requirements, pension plans and vacations. He added that small businesses are also often family activities, which make them a "family risk."

He added the tax-deferred, passive-investment portfolio now in Ottawa's crosshairs provides business owners with a retirement savings vehicle they otherwise wouldn't have.

"It will seriously damage entrepreneurship in Canada. That's not good for anyone," said Cohen.

Chris Struthers, who owns an engineering firm in Penticton, B.C., said if the proposed changes had been in place six years ago he doubts he would have quit his job to start his own company.

He supports the goal of shutting down abuses of the tax system, but he fears legitimate firms like his will be hurt by the changes.

Struthers, who has 10 full-time employees and often even more depending on the season, also criticized the government's message for making entrepreneurs feel like tax cheats.

"A lot of business owners, we're quite happy paying taxes," said Struthers, who created a website to fight the proposals.

"We pay our fair share, we punch above our weight in contributions to the economy and to suddenly be labelled like that, a lot of us have found that very offensive and insulting."

**Conservatives readying for 'huge' battle**

Conservative deputy leader Lisa Raitt expects the autumn battle over tax reform will be "huge."

Raitt, who has been holding roundtables on the proposals in different parts of the country, said the issue deserves a longer, more structured consultation period. She warned it could significantly damage the economy.