CMA appearance before the Senate Standing Committee on National Finance regarding federal proposals for “Tax Planning Using Private Corporations”

Dr. Laurent Marcoux
President
Canadian Medical Association
Ottawa, Ont.
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On behalf of the Canadian Medical Association, I want to thank you, Mr. Chairman, and Committee members, for inviting us to appear today.

I’d like to share our response to the Government of Canada’s July 18 tax reform proposals, including our reaction to the most recent announcements.

As we indicated in our brief to government, the CMA is opposed to the tax proposal given the significant destabilizing effect on medical practices and the small business sector. Doctors employ 137,000 Canadians and provide needed medical infrastructure. 54,000 physicians are incorporated. So the issue remains a high priority for the CMA, and our membership continues to be very concerned.

During the consultation period, the CMA called on the federal government to suspend the proposals affecting the use of Canadian-Controlled Private Corporations. It was our viewpoint that the changes required extensive analysis which was simply not feasible within the 75-day consultation period. We also asked the government to conduct a comprehensive review to ensure that legislation can meet safety net provisions and policy objectives without significant unintended consequences.

While the government has made some adjustments to its initial proposal, the adjustments contain a level of complexity that will be both difficult to comply with and track as well as difficult to administer. We remain very concerned with the pace at which these changes are being considered. Let’s not forget that the proposed tax changes are the most significant to the small business tax system in 45 years.

With so much detailed information lacking, it would not be prudent to proceed with implementation as currently planned. While we understand the government’s objective regarding fairness in the tax system, we cannot support ad hoc changes that risk destabilizing medical practices that are critical to Canadians. As tax fairness is not a commonly agreed to term, we are concerned that the changes proposed may be fair to one industry group while being unfair to another. As such, we continue to ask the government to conduct a detailed impact assessment of the proposed changes, and to conduct a substantive consultation with Canadians following the release of draft legislation.

In addition, and based on a preliminary review of the announcements, we believe the following changes are required:

- **First**, we believe that the government should maintain the existing legislation
with regard to passive investments. The cap on investment income is unprecedented and the ability for small business corporations to have retained earnings is necessary to ensure viability for business reasons and to provide a safety net.

- We are encouraged that the government acknowledged the role of passive investments to support sick and maternity leave and long-term retirement plans. However, it remains an area of concern and uncertainty for our members.
- The current arrangement for the tax treatment of CCPCs affords Canadian physicians options for a self-funded income safety net that covers their personal, professional and business requirement. These arrangements allow them to deliver quality health care services from coast-to-coast-to-coast and have been supported and encouraged by the very governments that set the ceiling on physician fees.
- Should the government remain committed to establishing a threshold on passive investment, the CMA will insist that the threshold be increased.
- Further, the threshold should be adjusted for inflation, and should be implemented as a cumulative amount. Investments are volatile by nature. We do not believe it would be fair for a CCPC with passive income of $50,000 in two consecutive years to pay less tax than a CCPC with no passive income one year, and $100,000 the next.

- **Second**, we submit that a spousal exemption for income sprinkling is appropriate. Most jurisdictions recognize spouses as equal economic partners as they also share the risks and benefits of operating a small business. The CMA and other members of the small business community believe that the tax regime needs to align with this reality.

- **Third**, we owe it to Canadians to create the most attractive environment for small business owners, and this extends to medical practices. The proposed approach will make it difficult for Canada to attract, recruit and retain highly skilled medical professionals.

- **Lastly**, we want to be clear -- the changes announced last week are both not sufficient to address the concerns raised by the CMA and members of the Coalition for Small Business Tax Fairness and instill a level of complexity in tracking pools of investment income that serves no business purpose.

We encourage the government to continue to listen. Let’s maintain the dialogue and work together to ensure these proposals are fair, in the true sense of the word. Meaning that no sector and no Canadian is left disenfranchised.
We hope to work with members of the Senate and the House Finance Committee in pursuit of tax policies that are fair for physicians, other small business people and all Canadians.

Canada’s federal tax system – supported by the governments that set physician fees – has given physicians options to manage their professional lives in a way that contributes to the economy and to our national well-being. Corporations are legitimate business vehicles that facilitate tax compliance and administration.

Mr. Chairman, CMA members are committed to tax fairness. We believe that tax fairness is achievable.

The CMA and its members will continue to share their perspectives with our elected representatives, Senators and department officials. We look forward to further clarity about these tax provisions.

Thank you. I can take any questions you may have.