Canadian Federation of Apartment Associations
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CFAA proposes changes to the planned corporate tax increases

CFAA supports the Coalition for Small Business Tax Fairness in its latest call for the federal government to cancel, delay or moderate its planned corporate tax increases regarding passive investments. On May 25, the Coalition proposed specific changes to the tax reforms which are to apply to Canadian-controlled private corporations (CCPCs).

The Coalition wrote Finance Minister Morneau to ask him to

- **Not proceed with the proposed changes to the passive investment rules for CCPCs.**

If the government is determined to proceed, then the letter urged Mr. Morneau to work with the Coalition and tax professionals to ensure that existing passive investments are not included in the formula for determining eligibility for the small business deduction going forward. (The government previously promised that passive investments currently held by small businesses would be grandfathered under the new rules, but the government went back on that promise in Budget 2018. The current government plan is to use income from currently held investments as a reason not to allow new active business income to receive the preferred small business tax rate, regardless of when those investments were or are made.)

The Coalition further recommended:

- **Implementing a more gradual "grind" in eliminating the benefit of the small business tax rate.**
- **Raising the threshold where passive investment income begins to affect a firm's access to the small business rate from $50,000 to $100,000 to exempt more small firms.**
- **Indexing the exemption limits to inflation to prevent small businesses from being subject to bracket creep on the taxation of their passive investment income.**

Table 1 sets out the immediate impact of the government's planned changes, and the Coalition's proposal (at a grind of $2.50 per $1 of passive income as opposed to the government's proposed grind of $5 per $1 of passive income.) Indexation would change the figures for future years.

Table 1: Sample impacts of the latest passive income plan

Investment earnings	Limit of corporate income eligible for the small business tax rate	
	Per Budget 2018	As sought by the Coalition and CFAA
(1)	(2)	(3)
0 – $50,000	$500,000	$500,000
$75,000	$375,000	$500,000
$100,000	$250,000	$500,000
$125,000	$125,000	$437,500
$150,000	$0	$375,000
$200,000	$0	$250,000

CFAA represents the owners and managers of close to one million residential rental suites across Canada. CFAA is the sole national voice for Canada's $480 billion private rental housing industry, which provides homes for more than nine million Canadians.

$250,000	$0	$125,000
$300,000+	$0	$0

CFAA and the Coalition are also asking the provincial governments not to follow the federal lead on passive income. The provinces have a free choice on whether to follow the federal lead or not. So far, the current Ontario Liberal government has said that it will follow the federal lead. If there is a new Ontario government after June 7, then perhaps that decision can be revisited.

Income splitting

Budget 2018 also maintained the position that the income splitting restrictions are to be effective starting on January 1, 2018, except that individuals and corporations are to have until December 2018 to meet the 10 per cent ownership test. It still seems likely that income from property owned through trusts will be affected by the changes, although that is not yet completely clear.

The Coalition and CFAA position on income splitting is that all spouses should be exempt from the reasonableness test for income splitting since the family law regimes of Ontario and most other provinces give spouses a 50 per cent stake in property and business growth on separation.

Negative impact on rental supply

CFAA opposes the tax increases, which will have a negative effect on new rental supply and other investments by small businesses. Tax increases on rental housing will ultimately be borne by renters, many of whom have low incomes. Tax increases work against housing affordability, which governments say they are for.

CFAA President John Dickie says, “Any increase in the taxes on rental apartments and townhouses would have far more negative than positive effects. Any increased tax on rental developers and investors will choke off much needed rental supply, and hurt renters.”

CFAA Chair Geoff Younghusband says, “The federal government needs to look seriously at its policy for encouraging new rental construction, and avoid tax increases. In their turn, the provinces and cities need to look hard at their property taxes, development charges and delays and uncertainty in providing land planning approvals. Those are the factors holding back much-needed purpose-built rental supply.”

CFAA opposes all tax increases on rental housing, and urges the governments to make reforms so the new rental housing developments are viable and can be done quickly.

For more information, go to http://smallbiztaxfairness.ca/ or www.cfaa-fcapi.org, or contact:

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