

Frank McCrea's Notes on Integration of Corporate and Personal Income

My engagement on this topic began when I reviewed a report from the Standing Committee on Finance, "Servant or Master." This report reflected a fundamental misunderstanding of how our tax system works relative to income, which is subject to personal income tax versus the income that comes through a corporation and is first subject to corporate tax and then dividend tax. When, in Minister Flaherty's response to the Standing Committee, there was a comparison of income tax rates to small business corporate tax rates only (i.e. no reference to dividend tax rates), my concerns were heightened.

Apparently within accounting circles, the non technical term for the comparisons that was central to my concern is the "Theory of Integration" There is a good article expanding it to be found on the next page. In the most recent budget document, Economic Action Plan 2013 I also noted a section the "Dividend Tax Credit," which also includes a government explanation from a slightly different perspective, whose very existence in the budget I found to be encouraging.

While I find all this technical detail on tax rates to be somewhat confusing, the simplified fact of the matter, regardless of the explanation that you choose to try to understand, is that everyone pays the same or similar tax rates regardless of whether a person received all their income as salary or as dividends through their own corporation.

The relevance of this technical detail manifests itself in legislation which was proposed in the fall of 2011 to increase the penalties on small businesses where individuals offer their services through their own corporation on contract, where those businesses are determined to be what the CRA describes as "employee like" or "Personal Services Businesses".

My background is in services, where for over the past 30+ years, I have worked as an employee, then a contractor with a one person corporation which might even be characterized as one of these evil PSBs from which expanded into a reasonably large firm <https://www.procom.ca/home> with offices across Canada and a growing presence in the US.

My perspective is global. I pay attention to the labour trends. In doing so, I have noted reported abuses in the media (good job) and have a better understanding than most on how those unfortunate situations might have come into being. Likewise, I see opportunity and grow within the knowledge based sectors of our labour economy, with trends to transition labour as a fixed cost to a variable cost and the expanding role of social media in the market's optimization of our scarce labour resources.

My concern with the once proposed changes, which might even now have received second and third reading is that it tells me that the Government is heading down the wrong path when it comes to the labour side of the economy. Where it should be aware of and planning how it is going to be respond to global changes so that it might realize the benefit of those changes in the form of increased tax revenue and increased job opportunity, it is talking ill advised steps like this PSB matter. Conversely, where corporations in their never ending search to reduce costs are in some instances engaging labour under contract in preference to sending the jobs offshore, where possible, the government is entirely absent, relying upon vague arguments of which reference concepts such a "Contract OF Service" as opposed to a "Contract FOR Service".

My purpose in reaching out to you is to inquire if this might be a topic of interest to yourself and solicit your expertise and support in raising its profile and hopefully in initiating positive change.