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**Ottawa, October 31, 2006**

## STATEMENT BY THE HONOURABLE JIM FLAHERTY, MINISTER OF FINANCE

**Ottawa, Ontario**

### **Check against delivery**

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Good evening:

I am here tonight to announce our new Tax Fairness Plan for Canadians. It's a plan designed to level the playing field between income trusts and corporations.

The measures I am bringing forward today are necessary to restore balance and fairness to Canada's Tax System. They are necessary to ensure our economy continues to grow and prosper. They are necessary to bring Canada in line with other jurisdictions throughout the world.

Our plan is the result of months of careful consideration and evaluation. Our actions are clear, decisive and in the best interest of all Canadians.

Despite the provisions in Budget 2006 to reduce the level of taxation on corporate dividends, the landscape has changed dramatically in the short time I have been Minister of Finance. This year alone there has been almost \$70 billion in new trust announcements.

We have seen a growing trend towards corporate tax avoidance. Top Canadian corporations, operating within the current rules, have announced their intention to convert to income trusts. They feel compelled to seek more favourable tax treatment by capitalizing on an available tax rule.

This trend has now moved into the core of our industrial and knowledge-based economy. It is a trend that has caused me growing concern. If corporations don't pay their share of taxes, this tax burden will shift onto the shoulders of hardworking individuals and families.

This is simply not fair.

This trend towards income trusts is also creating an economic distortion that is threatening Canada's long-term economic growth. It is limiting the ability of Canadian capital-intensive corporations to invest, to grow and compete in this highly competitive global economy.

If we continue down this road the implications for Canadians are significant. We will find ourselves with a tax system that is less fair and an economy that is less productive and competitive. Left unchecked such corporate decisions would result in billions of dollars in less revenue for the federal government to invest in the priorities of Canadians, including more personal income tax relief. These decisions would also mean less revenue for the provinces and territories, several of which have made representations to me on this matter.

Clearly, Canada is out of step in its treatment of income trusts. The structure being used in this country was shut down in the United States and Australia.

This situation is not right and it is not fair. It is the responsibility of the Government of Canada to set our nation's tax policy, not corporate tax planners.

In response, I am putting forward our government's Tax Fairness Plan:

First of all, the government is proposing to apply a Distribution Tax on distributions from publicly traded income trusts. This will level the playing field between trusts and corporations.

For income trusts that begin trading after today, these measures will apply beginning with their 2007 taxation year. For existing income trusts the government is proposing to provide a four-year transition period. They will not be subject to the new measures until their 2011 taxation year.

Secondly, as part of our Tax Fairness Plan we will be reducing the general corporate income tax rate one-half percentage point as of January 1, 2011. As a result of this measure, there will not be more government revenue generated from the corporate sector.

Thirdly, we are increasing the Age Credit Amount by \$ 1,000 from \$4,066 to \$5,066 effective January 1, 2006. This measure will provide tax relief for low and middle-income seniors.

Finally, we are introducing a major positive change in tax policy for pensioners. We will permit income splitting for pensioners beginning in 2007. This will significantly enhance the incentives to save and invest for family retirement security.

We recognize that pensioners and seniors have made important investments over the years and may be receiving benefits from the current income trust structure. These two measures will allow them to retain more of their income in their retirement years. This is a significant step forward in the strengthening of our social security system for pensioners and seniors.

These measures will enhance the seniors' initiative we introduced in Budget 2006. At that time we doubled the amount of eligible pension income that can be claimed under the pension income credit - from \$1,000 dollars to \$2,000 starting in the 2006 tax year.

Our government firmly believes tax relief is one of the keys to ensuring the Canadian economy remains strong and competitive. I will have more to say about our competitiveness when I present the government's Fall Economic Statement and release our Economic Plan for Canada in the next few weeks.

These measures represent a major tax reduction. Our Tax Fairness Plan will deliver over a billion dollars of new tax relief annually for Canadians. The initiatives I am announcing today clearly build on our tax relief package outlined in Budget 2006. We delivered significant tax relief for Canadians with 29 tax cuts amounting to \$20 billion in tax relief over the next two years.

But more needs to be done.

Families and businesses still pay too much tax in this country, and our government will continue to reduce the tax burden on Canadians. At the same time, we must ensure that no one gains an unfair tax advantage at the expense of others. It's a responsibility we cannot and will not abdicate.

Each and every day Canadians across the country get up and go to work, pay their taxes and set aside a few dollars for retirement. They trust that their government is watching out for them and upholding the values that make our country great. The values that define us as Canadians, like fairness.

The Tax Fairness Plan I am announcing today will uphold the value of fairness.

- It will level the playing field between income trusts and corporations;
- It will ensure that taxes are not unfairly shifted onto the shoulders of Canadian families and taxpayers;
- It will strengthen Canada's social security system for pensioners and seniors;
- It will help corporations make choices that are consistent with economic growth and competitiveness; and
- It will bring Canada's approach to income trusts back in-line with other jurisdictions.

Canada's New Government understands that good government and good policy are about being focused, determined and decisive. Our Tax Fairness Plan is not only the right thing to do, it is in the best interest of all Canadians from coast to coast to coast.

Thank you.



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