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Canadian finance minister backtracks on plan to end corporate tax break

By Theophilus Argitis Bloomberg News

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OTTAWA: Under pressure from Canadian companies, the finance minister, Jim Flaherty, backtracked on plans to scrap a corporate tax break valued at as much as 2 billion Canadian dollars a year.

Flaherty told The Globe and Mail newspaper in an interview Friday that he would narrow the scope of a pledge made in his 2007 budget to end companies' ability to deduct interest on debt that they incur to finance operations abroad.

Only companies investing through "tax havens" or limited-liability business structures will lose the deduction, Flaherty said, according to a transcript of the interview provided by the Finance Department. Most foreign transactions, including Thomson's effort to acquire Reuters Group, will not be affected, he said. "Clearly, they've addressed some important improvements," said Mike Murphy, executive vice president for policy at the Canadian Chamber of Commerce. The group wrote to Flaherty last month saying the tax change would cost businesses about 2 billion dollars, or \$1.81 billion, a year.

Businesses said losing the right to deduct interest expenses would make it more costly to expand overseas, at a time when corporate Canada is facing a barrage of takeovers by foreign competitors. The initial proposal, part of what Flaherty says is a strategy to make corporations pay their fair share of taxes, also sparked the second clash in six months between his minority Conservative Party government and leading supporters. In October, the government announced plans to tax the income trusts, causing the value of the popular, high-yield investments to plummet.

"This Conservative government has to make sure it doesn't convey an image that it's not pro-business," said Nikita Nanos, a pollster with SES Research in Ottawa. "It undermines part of the core franchise."

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Flaherty also told The Globe and Mail he would extend a planned two-year grace period to five years and appoint a panel to look at international tax issues for Canadian businesses for future budgets. Details of the plan are to be released Monday in a speech to the Toronto Board of Trade.

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