What is Benson's tax smog hiding?

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level as well, simply reinforces the privileged position of the rich

The wealthy are helped, too, by special tax categories. Estate taxes, gift taxes, capital gains taxes if they become law — all these mean the wealthy are taxed at an effectively lower rate because their tax base is reduced. In much the same way, corporations find their tax base reduced by depreciation allowances, capital cost allowances, rebates and so on. The process is strengthened in countless minor ways — for example only wealthy individuals and corporations can afford the expertise necessary to find more loopholes, and the expertise itself is ruled a deductible business expense.

So a dollar is not, in practice, a dollar. But a new twist in the system has come with the burgeoning branch plant economy: The expression tax dodge, so explicit in comparing wealth and poverty, turns out to be inappropriate to describe branch plant theft. Listen to a former Quebec minister of revenue:

The purpose of investment in subsidiaries is not simply to earn a profit. In the parent-affiliate relationship, a profit on inter-company transactions may be taken at either end, but is normally taken by the parent. Thus, a subsidiary could lose money and still make a net contribution to the parent company's income by the profit or purchases of raw materials and component parts from the parent, by patents, royalties and fees for management, advertising and research services. In fact, the primary purpose of investment in overseas markets is to earn a profit for the parent by the control of markets for the export of parts, components and raw material concentrates. It is not essential that the affiliate show a profit.

All of which is a complicated method for admitting that the branch plant does make a profit for the parent corporation. That profit may not show on the records, but it's there: branch plants are and have been established to show a profit in the United States, not in Canada. In this situation "income" (profits for a corporation) is a totally inadequate notion. Clearly foreign corporations will minimize taxes in Canada while maximizing profits in the U.S. This amounts, simply, to theft.

If the parent corporations reported profits in Canada they would be required to pay taxes. In practice the mechanics of foreign ownership make it possible to avoid or minimize taxes in Canada. The Proposals for Tax Reform will not unearth even a suggestion that something

is wrong in this area; Canada's corporate tax base, already reduced internally, is being further eroded and the difference is made up by levying higher personal income taxes.

The branch plants, meanwhile, use all the services supplied by Canadian taxpayers — railroads, roads, education, medicine and so on. Extractive operations such as mining and some types of manufacturing are most dependent on publicly-supported services, reinforcing the worst trends in branch plant operation and forcing Canadians to support them.

It becomes apparent, then, that the categories of "transfer of resources" and "equity," like "taxpayer" and "income," are in fact myths in the terms we are asked to understand them. The branch plant effectively transfers resources from the Canadian public to private American corporations. At the same time 70 per cent of its tax base is shifted to the Canadian consumer, already paying for some of the services used by the branch plant. To talk about equity and transfers in such a situation is to talk nonsense. The Proposals for Tax Reform will only act to continue the transfer of Canadian resources and ensure payment of the increasing tax burden necessary to do so.

Given all this, what do proposals for a capital gains tax mean? Capital gains taxation would cut off one area of undeclared income, but in view of the fact of branch plant economy it focuses on the wrong item. While a tax on capital gains may increase tax revenue by \$300 million to \$500 million, an effective tax on the wealth of the branch plants (i.e. their contribution to the profit of the parent corporations) would generate additional revenue of \$2 billion to \$8 billion annually.

As an estimate of a tax loss, something like \$2 billion to \$8 billion is ridiculously imprecise. We know it excludes tax losses to provinces. We know it is 20 to 80 per cent of the federal government's fiscal 1969-70 budget. But we don't know much more. The actual figure could be more or less — it's most likely closer to \$8 billion — but financial observers are handicapped by the federal government's approach to branch plants. Because the government does not call on the branch plants to provide data on their operations, Canadians still lack the figures which would allow them to estimate more accurately the tax loss due to a branch plant economy.

In any case, \$2 billion to \$8 billion would lop a good deal off the income tax Canadians pay. With that much not available in the annual tax take, debate around a capital gains tax which would increase revenue by \$300 million to \$500 million is pointless.

The proposed tax changes pretend that corporate tax shifts in the branch plant economy do not exist and that

international cash flows are not a problem. Says the white paper: "The over-all thrust of Canada's present provisions for taxing the Canadian income of non-residents is generally regarded as reasonable. The Canadian wages and business profits of non-residents are taxed at the ordinary rates."

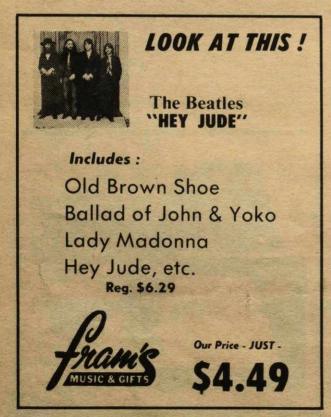
The only white paper statement relevant to the operation of a branch plant economy ignores the problem: "If the foreign corporation incorporates a Canadian subsidiary, the Canadian corporation is taxed on the profits at 50 per cent." There's no mention of a classic branch plant, on the books making no profit, yet contributing to the profit level of the parent corporation. The nearest satisfactory response says that "a foreign corporation which carries on business in Canada through a branch is liable for a special 15 per cent tax on net after - tax profits it has available for withdrawal." In fact a special deduction is made for any profits invested in land and depreciable assets. This will be changed to provide a deduction to "recognize the need for working capital."

Generally, then, it is not enough that the branch plant can avoid taxes so successfully; the government is proposing to increase the efficiency of the process. Taxation is supposed to provide services for Canadians, but the branch plant economy means that money that could pay for those services becomes part of the profits of U.S. parents. And where taxes must be paid in Canada they are shifted to the consumer.

Proposals for Tax Reform is a political pamphlet. For all practical purposes it calls for the extension, with minor changes, of the present allocation of resources — a system which, as has been shown in part by the government's own commission, is inequitable.

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