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Are We to Have Federal Income Tax?

CANADA *Has Not Adopted it Yet—Finance Minister White's Objections—Merits and Disadvantages Analysed—Is an Income Tax Certain to be Evaded?—British and United States Systems.*

UNLIKE the majority of nations, we have hitherto made not the slightest endeavor to use this great engine of taxation (the income tax). So long as revenue could be raised in abundance by customs and excise taxes, ministers of finance, the first maxim of whose profession was long ago stated to be to secure as many feathers with as little squawking as possible, have naturally declined to favor it. Mere considerations of justice were not enough. But now necessity adds its weight to justice. For the first time in our fiscal history the minister of finance found it advisable this year to devote a part of his budget speech to a serious discussion of the income tax. True, he urged strong objections against its adoption, but the important point was that it had to be faced at last. Like a politician, a proposed reform would rather be attacked than forgotten."

Thus writes Professor O. D. Skelton, of Queen's University, Kingston, Ontario, in a bulletin of the university on "Federal Finance." On the subject of income tax, he continues:—

The detailed form such a tax should take is a matter for careful discussion. Possibly a tax on all incomes over \$1,200, with an exemption of \$1,200 on all incomes up to \$6,000,¹ and with additional exemption in the case of married men and for each child, would be advisable.

What, briefly, are the merits of an income tax? Perhaps most important is the fact that it is on the whole the fairest test of ability to pay. Expenditure is not a fair test of that ability. Under a system of taxation which takes expenditure as the basis, the poor man, as has been said above, is compelled to pay more heavily than the rich. His expenditure swallows up practically all his income, while the millionaire, even with lavish personal and household outlay, usually spends only a minor fraction of his income. Again, given two men with the same income, one with a large family to support and another with no one but himself to spend for, a system of taxation according to expenditure, such as we now have in the Dominion, piles up the greater tax on the back of the man who already has the greater burden. A straight income tax of the older type would tax both the same; an improved income tax, as modified by recent developments, notably in the United Kingdom and the United States, would take the size of family into account in determining the amount of exemption allowed, and thus equalize the burdens fairly.

Nor is property an entirely adequate test. In the long run the value of property used for production must correspond to its yield, must equal the capitalized value of its possible income. But taxes are paid in the short run. Here are two railroads which have cost the same amount to build: one runs through fertile, well settled territory, and has a large surplus; the other runs for hundreds of miles through wilderness. Should both pay the same tax? One manufacturer is just trying to build up a market: another, with plant of equal value, has a market and profit secured; one farmer has a good year, another, a bad one—and yet the property tax falls alike on one and the other. A property tax exempts men in high salaried positions, as compared with men drawing the same income from a factory. It is true the salaried man should be taxed lighter, since his income ends with death, while the man with property can hand down his principal to his heirs: on this account it is fair to include both property and income taxes in the fiscal system, or to discriminate between "earned" and "unearned" incomes, as has been done in Britain of late years. Again, one man owns a store without incumbrance; another has a mortgage on his to two-thirds its value. Should both be taxed the same? Or can all the countless forms which property takes be reached adequately by such a tax?

Income is not a sole and perfect test of ability to pay, but it is more adequate than any other single test. Taxes on property, taxes on expenditure will and should long remain as part of our fiscal system, but to redress the balance somewhat a tax on income should also be included.

The other chief merit of an income tax is one which it has in common with all direct taxes—the merit of being felt. So long as we pay our taxes without knowing it, so long will extravagance be at a premium. An income tax would not entirely stop our taxes going up but at least it would impose some drag on the aeroplane—if an aeroplane is a correct simile for taxes, seeing that aeroplanes usually come down some time or other.

¹ That is, the man with \$1,300 a year, and entitled to no other exemption, would pay the stated rate on \$100; the man with \$3,000, on \$1,800.

² "In dealing with taxation measures, we have to deal with classes. We cannot single out for special taxation a wealthy corporation or individual, and pass over those less wealthy of the same class."—Hon. W. T. White, Hansard, March 18th, 1915.—True, and an admirable argument for an income tax.