Finance Minister Edgar J. Benson

What is Benson's tax smog hiding?

by David Black, the Last Post

"Ken," said the government, "how can we straighten out our tax system?"

"Well," Ken said, "you could decide a dollar is a dollar."

"Thanks anyway," the government said, and turned out Edgar Benson's Proposals for Tax Reform.

Those proposals have generated a lot of excitement in a lot of places about "change". We are, the press tells us, about to have the recommendations of the Carter commission report all but implemented.

In fact we are about to receive two things. One is an extension of a legal tax dodge that costs Canadian millions of dollars annually – you can only get around that by making a dollar the same for the rich as for the poor, something like Kenneth Carter suggested in 1966.

The other yield of the Benson proposals is to help along the integration of the Canadian and U.S. economies. Melville Watkins calls ours a branch plant economy, and it means that large parts of our corporate sector are outside the tax man's realm. It costs us not millions, but billions.

We commoners tend to regard the tax system with a mixture of awe, confusion and useless nonsense. It operates off a divide-and-conquer principle: At tax time we are so busy calculating our tax bills and trying to save a few dollars each that we cannot see how we are being collectively robbed.

What we need to know, briefly, is why we pay what taxes and how.

Confederation created a legal division of powers between the provinces and the federal government. Under the British North America Act, the federal government may raise money "by any mode or system of taxation". The provincial legislatures are restricted to direct taxation within their provinces. Municipalities get their taxing powers from the provincial legislatures.

It all comes out in the confusing tax system which confronts all of us. The number of different taxes, for example, seems limitless. There are income taxes, estate taxes, sales taxes, real estate taxes, excise taxes, taxes on gifts, taxes on water consumption and many, many more.

Canadians pay most of these in the form of prices paid for goods and services.

Income tax is paid both to provincial and federal governments by all persons with an income large enough to be legally declarable. The income of a resident of Canada for a taxation year includes his revenue from all sources, inside or outside Canada.

This revenue does not now include capital gains, although if the Benson proposals are implemented capital gains will count as a form of income.

Individuals also pay federal tax on gifts over a stated value. For those who receive an estate – property which changes ownership at death – there is an estate tax if the estate has a stated value. The federal government also levies a sales tax – excise tax – on goods imported into Canada.

The provinces levy personal income taxes along with taxes on retail sales, tobacco, alcohol, gasoline and property.

Motor vehicle licenses and other permits are also provincial forms of taxes. Municipalities levy taxes on owners of property situated within their jurisdiction. Tenants usually bear the cost of property taxes in their rents.

There is, of course, supposed to be some "sharing" by dint of a corporation income tax but it is simply passed on (shifted) to the consumer.

When the cost of all these taxes is added up, 40 to 50 per cent of an individual's income is paid to various levels of government. The size of the tax bite means any talk of changes draws some hope from the taxpayer, in whose name any proposals for change are invoked. "Taxpayer" is one of four concepts essential to understanding the Canadian tax system – the others are "income," "equity" and "transfer of resources". Briefly, we are to understand, individuals and corporations pay taxes on their income, resources are transferred to the needy, and this process is as equitable as possible.

The immediate problem is that corporation do not pay income tax, or at least not in the sense implicit in such a description. They can and do pass most of their taxes on to the consumer in a process known as tax shifting; the consumer, meanwhile, contributes with every purchase he makes, from a five-cent ice cream cone to a $5,000 automobile and up.

One study for the Carter commission estimated the amount of shifting to be as high as 70 per cent – every time the consumer buys the product of a large corporation he pays 70 percent of the corporation's tax bill on that product. The corporation becomes a tax collector for the federal government. Shifts are bigger in large corporations – competition among small firms tends to reduce them – and in monopoly situations the amount of shifting is probably 100 per cent, a particularily harsh fact since Canada is so highly monopolized.

The actual operation of the tax system, then, bears little resemblance to the notion of individual "corporations" or "citizens" paying their "fair" share. Corporations can share their "share" of the tax burden with others. The result for Canadians is simply to perpetuate a social system favoring the wealthy.

Part of this has its roots in the assumption that a dollar has the same value for a poor man as for a wealthy man – a notion which the Carter commission challenged to no avail. An 11-per-cent income tax on lower-class earnings has the social effect on disposable income that an 80-per-cent tax would have on upper-class earnings. And there is no such thing as an 80-per-cent income tax. Benson's response: "The government rejects the proposition that every increase in economic power, no matter what its source, should be treated the same for tax purposes." This attitude, which operates at the corporate

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