

NOTES ON TURNOVER TAX MEMORANDUM

The Memorandum submitted is a rather elaborate discussion as to whether a 1% turnover tax will yield more than the present sales tax of 5%. That a turnover tax could be made to yield more than the present sales tax is not in dispute; the comparison is to be drawn between a 1% turnover tax and a 5% sales tax. Which of these two would be the more productive seems to me to be almost entirely a matter of the number of turnovers which Canadian products experience on the average. The memorandum says (p. 28): "we do not think the number of turnovers would exceed seven on the average", but there is no indication anywhere of what is the basis of this estimate, nor is the basis of calculation given for Mr Cameron's four examples of turnovers on p. 16.

On the main question of the productivity of revenue - and apart from questions of economic expediency or fairness - the number of turnovers is the dominating factor. Furthermore, it is of little value to argue the expediency or the fairness of the suggested change, if the turnover tax is not going to be more productive. In fact it is put forward not only as more productive than the sales tax but sufficiently so to bring about a considerable reduction in income tax.

It may be helpful to start with an artificially simplified case. Take the case of a ^{commodity} ~~raw material~~ which changes hands seven times on the way to the ultimate consumer, and to begin with, let us suppose no additional value is added to it: it is merely passed on. Again, for simplicity, suppose each intermediary adds 10% to the selling price.

UNDER SALES TAX.		UNDER TURNOVER TAX		Actual burden over tax.
assuming every seller can shift the burden	consumer cannot	assuming every seller can shift the burden	except for	
A sells at	100	A sells at	101	1.
		B adds 10%	11.1	
			111.1	
		Turnover tax 1%	1.1	1.12
B sells at	110	B sells at	112.2	
		C adds 10%		

C see next page