

Who Pays The Taxes?

Last of a Series of Three Articles

BY

Stephen Leacock

THE fact is not generally appreciated that the provinces of Canada are very largely dependent on the national tariff system for their public revenue. The provinces, of course, levy no duties of their own. But they draw from the central government, in the form of subsidies, funds which can only be considered as part of the proceeds of the tariff and excise taxes, since the federal government itself has hardly any other source of revenue. This system has very often been attacked. It is argued, not without reason, that since the Canadian provincial governments derive a large revenue without incurring the odium of levying taxes, they will necessarily be led into extravagance. They reap what they have not sown and gather where they have not strawed. They enjoy the fruits of taxation without incurring its responsibilities.

PROVINCIAL FINANCES AND THE TARIFF.

The sums which our provinces receive in this way have grown to considerable proportions. In the year 1910-1911, the Province of Ontario received from the Dominion Government the sum of \$2,128,772; Quebec, \$1,686,579; Nova Scotia, \$610,460; New Brunswick, \$621,360; Prince Edward Island, \$321,051; Manitoba, \$838,247; Saskatchewan, \$1,229,975; Alberta, \$1,173,068, and British Columbia, \$522,076. In all, the Dominion paid to the provincial governments more than nine million dollars. The system evidently has its weak sides. But before we undertake to condemn it altogether, we must at least ask what is the prospect of our being able to replace it with any other method that does not present still graver disadvantages. It is often said that a more direct form of taxation might with profit be employed instead of the subsidy system. There is certainly some truth in this, and indeed in the last ten years the leading provinces of Canada have developed direct taxes on corporations, railroads, banks, telephone companies, etc., in a way to supplement most effectively the existing system. But it would be scarcely possible to cut the provinces loose from the support they receive from the national tariff without compelling them to fall back upon the property tax as the chief source of their yearly revenue.

THE GENERAL PROPERTY TAX.

Now if we wish to see the difficulties that would be encountered by the introduction of direct property taxes as the chief fiscal resource of provincial governments, we have only to turn to the experience of the State governments under the American system. The States, of course, receive no subsidy as our provinces do from the customs receipts of the Federal government. The state, county, and township authorities draw a very large proportion, in the case of the two latter practically all, of their national support from the proceeds of a direct tax laid on all houses, buildings, horses, carriages, furniture, stock and shares, mortgages, bonds, etc. At its origination it seemed eminently reasonable. The States were forbidden to levy import and export duties, and to levy excise duties would tend to drive out manufacturers to a more favoured locality; they, therefore, of necessity, fell back on direct taxes. And of all such, a single tax, laid on all forms of property alike, seemed to commend itself as the most uniform and equitable. In practice it has shown itself to be distressingly inequitable.

THE DISTRIBUTION OF THE TAX.

This is due in part to the manner of the assessment, which is made as follows: The State authorities compute the amount of the direct tax needed for their purposes, and divide it among the counties in the proportion of the value of assessed property in each. To the sum thus called for each county adds the amount needed for its own use and then distributes it in like manner among its townships, again according to the proportional value of the assessed property in each. To this sum the township adds what is needed for its own purposes, usually the largest amount of all. The total thus reached is distributed among all the property holders of the township according to their proportion of assessed property; in other words the total of the assessed property is divided by the total tax to be collected, and a tax rate is thus obtained, which is levied on all property. If, for example, the total of the property was worth \$5,000,000, and the total tax to be collected was \$100,000, then the rate tax would be put at one-fiftieth, or two per cent. Under such a system, then, everything turns on the assessment. If one county has been assessed for very

much less property than it actually has, then the amount of the tax assigned to it by the state will be very much less than it should be, but at the expense of the other counties, for the rate all round will need to be higher in order to supply the fixed quantity of money asked for. Or again let us suppose that in one of the townships the property is assessed for very much less than it is worth. Then, the township in which the assessment is too low is given less than its share of the county tax, but always at the expense of the other townships, on account of the rate being of necessity higher than would be needed if the assessment were larger. Finally, within the township itself, precisely the same thing happens among individuals.

THE HONEST MAN SUFFERS.

Anyone whose property is put at too low a valuation, or not valued at all, escapes at the expense of his neighbours; and the more the property in general escapes assessment and remains invisible, the higher becomes the tax rate. Hence has arisen what is called competitive under-assessment. The assessors, moreover, being elective officers, elected in most cases for a very short term, are personally interested in not making the total property of their area stand at too high a figure.

The upshot has been that while the system was originally devised as the most equitable form of universal taxation possible, in its actual operation nothing could be more vicious and inequitable. For it is to be observed that it in reality discriminates most unfairly between different kinds of property. Real estate, for example (lands and buildings), is much less easy to conceal than such forms of property as shares in bank stock, bonds, debentures, etc. In illustration of this it may be mentioned that in the assessment of property in Brooklyn in 1895, real estate constituted over ninety-eight per cent. of the total values. Some years ago (1884) a tax commission in West Virginia reported in reference to personal property. "Things have come to such a condition in West Virginia that as regards paying taxes on this class of property, it is almost as voluntary, and is considered pretty much in the same light, as donations to the neighbouring church or Sunday school."

A SCHOOL FOR PERJURY.

In addition to this, a premium is put upon dishonesty, since people of a pliable conscience will find it easier to dodge the assessment than those of a more uncompromising morality. Even some of the measures intended to prevent this, as, for example, the adoption of a schedule or property made out and sworn to by the owner, and the penalties (legal and spiritual) for perjury, etc., accentuate the evil rather than lighten it. The worst feature of all is that, when under-assessment once sets in, it moves forward at an accelerated pace. For the higher the rate rises, the more imperative does it become for each individual to understate his property. But the more the property is understated, the higher the rate rises, and thus the worse the situation is the worse it tends to become. In some cases the rate becomes so high that to tell the literal truth, and pay the full rate tax, would mean absolute ruin. This in some of the "towns" of Chicago, previous to the reform of the assessment system a few years ago, the rate stood as high as eight and nine per cent. Now, it must be remembered that this means, not the contribution of eight per cent. of one's income, but eight per cent. of one's capital property. To actually pay this and continue in business would not, for ordinary enterprises, be found possible. The result is that both the assessors and the assessed adopt a rough scale of depreciation, accepting as accurate a figure that is perhaps one-fifth or one-tenth of the probable actual value of the property concerned. Meanwhile, the incentive to dishonesty remains, and a vast amount of property escapes untaxed.

DIRECT PROPERTY TAX CONDEMNED.

Throughout the entire United States opinion is agreed as to the inefficiency and iniquitousness of the general property tax. It has been condemned by a long series of state tax commissions held within the last forty years, and by all the highest authorities on the subject of public finance. "Instead of

being a tax on personal property," said the New York commissioners in 1872, "it has in effect become a tax upon ignorance and honesty. That is to say its imposition is restricted to those who are not informed of the means of evasion, or, knowing the means, are restricted by a nice sense of honour from resorting to them." The Illinois commission of 1886 spoke of it as "a school for perjury, promoted by law." The New York report of 1893 says: "It puts a premium on perjury and a penalty on integrity." The recent industrial commission in its final report (vol. XIX), quotes as illustrative of the general feeling, the words of a special committee on taxation which reported to the California senate in 1901: "From Maine to Texas and from Florida to California, there is but one opinion as to the workings of the present system. That is, that it is inequitable, unfair, and positively unjust. Theoretically all property is called upon to bear a share of the public burdens in exact proportion to its present value. In practice, that end is admittedly not even approached. Scarcely a fractional part of the property in any commonwealth is brought to the tax rolls."

LEAVE WELL ENOUGH ALONE.

At the present time the efforts of tax reformers in the United States are directed towards escape from the evils of the direct property tax. In many cases personal property is being abandoned as a source of revenue, while resource is being had to increased inheritance taxes, and to the development of taxes on corporations. In the light of American experience, the fiscal system of the provinces of Canada shines by comparison. Our provincial governments draw a large revenue, in indirect fashion, from the national tariff. The system has undoubted weaknesses. Responsibility is lessened and unless public opinion is alert, there will be a tendency of the subordinate governments to plunder the national chest. But after all the present plan appears to have advantages which outweigh, in practice, any of the shortcomings which may be noted in its structure.

Canada's Semi-Centennial.

IN an article in the CANADIAN COURIER of January 20th, Mr. Charles R. McCullough stated that Canadian people should now start to plan for the celebration of this country's semi-centennial. The idea has evidently "caught on." Mr. McCullough's article has aroused great interest among our readers. His suggestion has been favourably commented upon by many newspapers, the editors of which heartily second the suggestion that now is the time to commence working out the details of the celebration. The following editorial comment was made by the *Sentinel-Review*, Woodstock:

"A writer in the CANADIAN COURIER reminds his readers that Dominion Day, 1917, will be the semi-centennial of Canadian Confederation, the jubilee of the Canadian people. The outstanding importance of the event and the adequate marking of it by Canadians should now, he says, begin to possess the minds of our people and lead them to plan for its celebration on a scale proportionate to the growing greatness of Canada.

"The writer evidently realizes the importance of beginning in time. A casual observer is likely to receive the impression that Canadians are not very enthusiastic about the great national event in their country's history, or about the celebration of the day which commemorates it. Perhaps the battle for national existence was too easily won. There was no outpouring of blood, no accompaniment of roaring cannons or flashing swords, nothing to make it picturesque according to our ideas of the picturesque, and so for the most part the anniversary of Confederation each succeeding year is allowed to pass as if it meant but little to the people, or as if the people had not come, as yet, to fully understand its meaning.

"Therefore, the writer in the COURIER was wise in beginning early to prepare the way for the celebration of the semi-centennial of Confederation. The celebration, if there be one—and it will be a shame if there be none—ought to be worthy of the great event commemorated. We are fond of boasting sometimes that Canada has been discovered by the rest of the world. Let the Canadian people show the rest of the world that they have discovered themselves and that they appreciate the meaning of events that have contributed to the making of Canada."