

4. COMPLIANCE

3.31 The achievement of widespread understanding of, and voluntary compliance with, tax laws combined with enough detail to block loopholes is a goal having a number of facets which must be considered separately.

1. Widespread Understanding

3.32 Firstly, the White Paper must be looked at from the point of view of whether it will result in "widespread understanding" of tax law. It is generally accepted that existing income tax law is quite complex and it must be said that some of the White Paper proposals would result in simplification in certain areas. As against this, it seems clear that other proposals would inevitably require complex law and in this context we would mention the creditable tax provisions, various aspects of the taxation of capital gains, the income averaging provisions and the taxation of "passive" income earned outside Canada. Consequently we do not believe that the tax system which would result from the White Paper proposals would be more understandable than the one which we have at present.

3.33 In a sophisticated economy such as we have in Canada it is important that the tax system be flexible so that different situations may be treated in different ways. A "simple" tax system which would be understood by everyone would not serve adequately a diverse economy and would inevitably result in inequitable tax effects. Notwithstanding the complexity of the present system most taxpayers have little difficulty complying with those provisions of the law which govern their tax position.

3.34 Canada is fast reaching the end of its financial