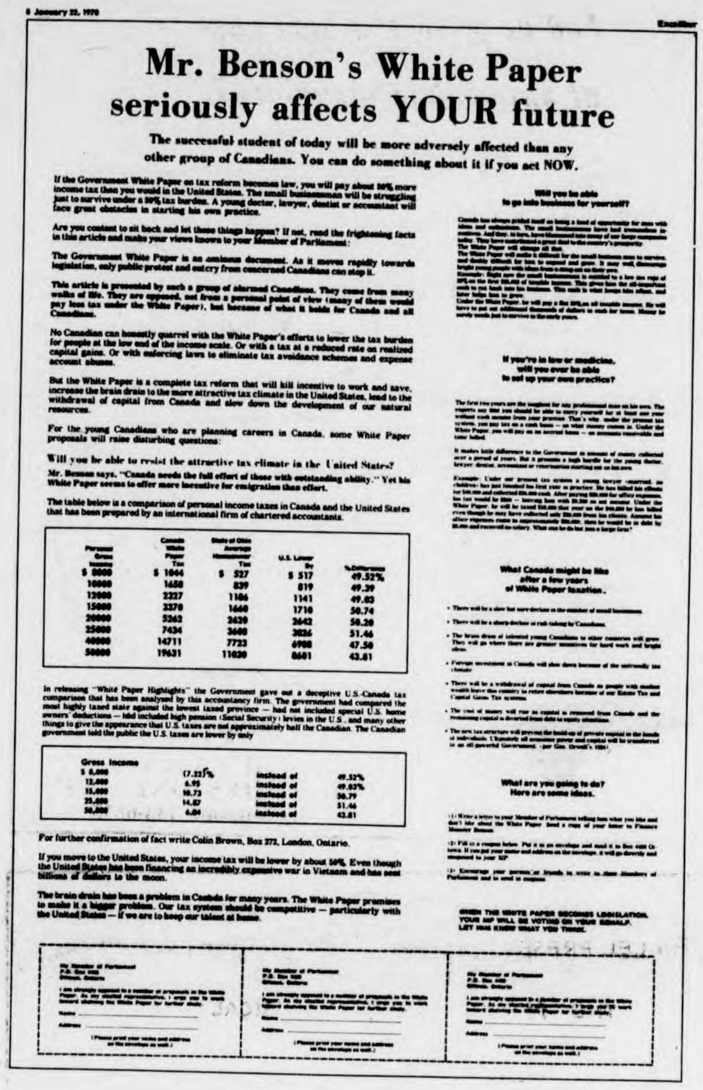
About that ad...

Two weeks ago EXCALIBUR ran a full-page advertisement paid for by Colin Brown of London, Ont. Brown wanted to enlighten people about the reforms in finance minister Edgar Benson's white paper on taxation. Three students at the University of Western Ontario replied to that ad, claiming it was misleading and contained errors. From the UWO Gazette.


8 January 22, 1970 Excalibur

Mr. Benson's White Paper seriously affects YOUR future

The successful student of today will be more adversely affected than any other group of Canadians. You can do something about it if you act NOW.

If the Government White Paper on tax reform becomes law, you will pay about 50% more income tax than you would in the United States. The small businessman will be struggling just to survive under a 50% tax burden. A young doctor, lawyer, dentist or accountant will face great obstacles in starting his own practice.

Are you content to sit back and let these things happen? If not, read the frightening facts in this article and make your views known to your Member of Parliament:

The Government White Paper is an ominous document. As it moves rapidly towards legislation, only public protest and outcry from concerned Canadians can stop it.

This article is presented by such a group of alarmed Canadians. They come from many walks of life. They are opposed, not from a personal point of view (many of them would pay less tax under the White Paper), but because of what it holds for Canada and all Canadians.

No Canadian can honestly quarrel with the White Paper's efforts to lower the tax burden for people at the low end of the income scale. Or with a tax at a reduced rate on realized capital gains. Or with enforcing laws to eliminate tax avoidance schemes and expense account abuses.

But the White Paper is a complete tax reform that will kill incentive to work and save, increase the brain drain to the more attractive tax climate in the United States, lead to the withdrawal of capital from Canada and slow down the development of our natural resources.

For the young Canadians who are planning careers in Canada, some White Paper proposals will raise disturbing questions:

Will you be able to resist the attractive tax climate in the United States?

Mr. Benson says, "Canada needs the full effort of those with outstanding ability." Yet his White Paper seems to offer more incentive for emigration than effort.

The table below is a comparison of personal income taxes in Canada and the United States that has been prepared by an international firm of chartered accountants.

Personal Gross Income	Canada White Paper Tax	State of Ohio Average Homeowner Tax	U.S. Lower By	% Difference
$ 8000	$ 1044	$ 527	$ 517	49.52%
10000	1658	839	819	49.39
12000	2327	1186	1141	49.03
15000	3370	1660	1710	50.74
20000	5262	2620	2642	50.20
25000	7434	3608	3826	51.46
40000	14711	7723	6988	47.50
50000	19631	11030	8601	43.81

In releasing "White Paper Highlights" the Government gave out a deceptive U.S.-Canada tax comparison that has been analysed by this accountancy firm. The government had compared the most highly taxed state against the lowest taxed province — had not included special U.S. home owners' deductions — had included high pension (Social Security) levies in the U.S., and many other things to give the appearance that U.S. taxes are not approximately half the Canadian. The Canadian government told the public the U.S. taxes are lower by only

Gross Income			
$ 8,000	(7.22)%	instead of	49.52%
12,000	6.95	instead of	49.03%
15,000	10.73	instead of	50.79
25,000	14.87	instead of	51.46
50,000	6.04	instead of	43.81

For further confirmation of fact write Colin Brown, Box 272, London, Ontario.

If you move to the United States, your income tax will be lower by about 50%. Even though the United States has been financing an incredibly expensive war in Vietnam and has sent billions of dollars to the moon.

The brain drain has been a problem in Canada for many years. The White Paper promises to make it a bigger problem. Our tax system should be competitive — particularly with the United States — if we are to keep our talent at home.

Will you be able to go into business for yourself?

If you're in law or medicine, will you ever be able to set up your own practice?

What Canada might be like after a few years of White Paper taxation.

What are you going to do? Here are some ideas.

By JOHN READ, HUGH McKENZIE, RON HIBBERT and STEPHEN BROWN

According to "a group of alarmed Canadians," the proposed tax reforms will "kill incentive to work and save (and) increase the brain drain to the more attractive tax climate in the United States."

The "group" would have us believe that a change in marginal tax rates on the order of 2.5 per cent, as a maximum, will kill incentives. It is hard to believe that such a small increase would at all affect the desire to work. The maximum amount lost by any Canadian taxpayer comes at a gross income of $12,000 — where a single taxpayer loses $313 a year, or $6.02 a week.

Irrelevant figures

As for the "brain drain" to the U.S. the figures cited in support of the case are totally irrelevant to an evaluation of the white paper.

We must examine, not the tax gap between Canadians and Americans, but rather the difference that the white paper makes in Canadian incomes — because the gap existed before the white paper. As mentioned above, the largest after-tax income loss of any Canadian is $6.02 per week; again we find it difficult to believe that such a small income differential would materially affect decisions to emigrate. In this, we concur with the Carter Commission, which stated: "We are sceptical that tax factors have been a major factor in emigration"; also with the white paper, which feels that "... changes in conditions in the U.S. seem to have made that country less attractive to Canadians considering emigration. . ." (white paper, p. 91).

If, in fact, the "group" objects to the tax differential then rather than blaming the tax paper as a casual agent, it should criticize this departure from the Carter Commission proposals (which recommended a change in the rate structure to bring Canadian taxes more in line with U.S. ones). The white paper's "crime" lies, not in creating the tax gap, but in failing to lessen it.

Our objections to the advertisement are compounded by the data used — least of all because no source is given for any of the numbers.

Our principal objection is to the hypocrisy involved. The ad criticizes the government for giving a deceptive Canadian-U.S. tax comparison, by comparing the highest tax state to the lowest tax province, and including U.S. social security payments. We must include the latter because they pay for benefits which are included in Canadian income taxes.

Then the ad compares the state of Ohio tax with the white paper tax — and, in doing so, itself gives a deceptive comparison.

We augment the data presented in the ad with data from the Canadian Press — cited in the London Free Press, Nov. 8, 1969:

Income	Ad Data Ohio Tax	CP Data New York Tax
$10,000	$ 839	$2,625
20,000	2,620	6,894

(The New York figures include federal and state income taxes, and social security payments: the ad neglected to name the components of the Ohio tax.)

Discrepancy unfounded

This reveals a somewhat startling discrepancy, considering that the only difference between the two state figures should be state taxes. The table gives the impression that state taxes are considerably higher then federal taxes, when actual state income tax revenues amount to some 10 per cent of federal income tax revenues.

Using the CP data, we find that, at least up to an income level of $20,000, single people and married couples with no children pay less tax than their New York counterparts. On the other hand, a couple with two dependent children pays $800 more tax in Canada, at the $20,000 level.

We note that the above comparison was done, not to support in any way the contents of the ad, but rather to demonstrate the statistically meaningless comparison of one state with one province; they give us no national meanings. It has a side effect of showing that the advertisement is apparently wrong.

We would also point out that all comparisons of tax data are meaningless without a consideration of the disposal of the tax dollar; it is implicitly assumed in such comparisons that no benefit is accrued from tax expenditures.

Using Ohio as an example — and, incidentally, Ohio has the lowest education tax of any State in the U.S. — a consideration of the tax expenditure sector reveals that low education taxes have resulted in "a statewide financial crisis for the schools" which has caused "freezing the size of the faculty and eliminating such 'frills' as art and Russian" (Time Magazine, Jan. 12, 1970, page 65, "Ohio's Financial Crisis").

In the same article, Stayner Brighton, executive secretary of the Ohio Education Association said: "The real problem in Ohio is that we tax at the lowest level of any state. We think Ohioans should know that if taxed at the national average, we would provide $600-million a year more for schools."

We turn now to the section on small business, and the contention that the white paper will stifle "men with ideas and enthusiasm." The purpose of the lower tax rate (23 per cent) on the first $35,000 of net profits was to provide an incentive for the establishment of small enterprises.

However, this has become one of our most-used tax dodges — which the ad is supposedly against.

(For example: an entrepreneur who runs his business not as a corporation, pays a tax of $11,861 or his $35,000 profits: the one who incorporates pays $8,050. In addition, the corporate entrepreneur can, if he makes over $35,000 profit, take some as salary, at lower tax rates. At the 23 per cent level, he is taxed on roughly $10,000; thus, he can in fact pay 23 per cent tax on $45,000 income, while his unincorporated counterpart pays over 40 per cent.)

Another option

We do have other investment incentives, such as depreciation allowances, which aid the budding capitalist.

In addition, under the white paper the entrepreneur has the option of not incorporating himself; treating his profits as personal income; and averting risk by using the income averaging provisions of the paper.

If, finally, it is felt that the intrinsic value of small business is so great that an extra incentive is desirable — to the detriment of the concept of equity in taxation — then surely some method less discriminatory than a general tax inequity (i.e. a loophole) should be employed. This could be in the form of accelerated depreciation, or a property tax 'holiday' during the formative years.

Let us proceed to the next section of the advertisement, which, as far as we can determine, is a perfect example of "How To Lie With Statistics". To show this, we will rework the data.

In the example, we have a lawyer whose year billings were $40,000, of which $30,000 was collected, and expenses were $20,000. We assume he is married, with no children

Present system (a)		White paper (b)
$30,000	taxable income	$40,000
20,000	less expenses	20,000
2,100	less standard deductions	2,900
7,900	tax base	17,100
1,919	tax	5,997
5,981	income	11,103
	less income not received	10,000
5,981	net income	1,103

This demonstrates one of the provisions of the white paper: that billings, not receipts, are taxed. There are several implications. Note that the net income differentiated is $4,878 — not $17,500 as the ad stated: also that in the next year, under (b), the $10,000 not received (although taxed) would be income — and would not be taxed again.

Therefore, under the white paper proposals, the lawyer would be worse off only in the first year. Consider also the lawyer's ability to leap over the "high hurdle" of taxes under the new system — since the dates of billing are entirely at the lawyer's discretion. Finally, it must be noted that this is one of the sections of the paper for which Benson has stated that he will table revisions.

"What can he do but join a large firm?" Any lawyer who can generate $40,000 of billings in his first year of practice has little need of a "large firm."

The final section of the ad is a real gem. On the question of risk taking, we must assume that the white paper proposal reducing this is the capital gains tax, since the ad doesn't specify otherwise.

Given that capital losses would be deductible from income for tax purposes, the capital gains tax would reduce the riskiness of a given asset, and thus increase the investment in risky ventures.

No change

Also, the gains tax will not change tne average rate of return on any asset, and if the risk involves something other than capital gains, the white paper will not affect it.

Will foreign investment by slowed down by the new proposals?

The major effect of the white paper in this area would be to reduce the advantages to people operating in tax-haven countries — in other words, one of the favorite "tax avoidance schemes" of the rich would be reduced in effectiveness.

Major investing countries — if their money were deemed necessary for Canada — could be joined to Canada by tax treaties; they would retain some or all of the present advantageous system.

An interesting point: Why mention the estate tax in the ad? The white paper doesn't propose any changes in this area: Major revisions were effected last spring.

Further, why would the gains tax cause people "with modest wealth" to leave the country — especially when the proposed tax is the same as that of the logical receiver country, the U.S.?

They tax 25 per cent on realized total gains; the white paper would tax 50 per cent of 50 per cent of capital gains, for an effective rate of 25 per cent. The only problem here is the proposed accrual taxation of stock gains — but Benson has stated that he will revise this.

The point that the cost of money will rise as capital leaves the country rests on the somewhat dubious assumption that the capital will in fact, leave. This is a case of building shaky walls on shakier foundations.

Per George Orwell's 1984, government control of assets can only be expanded at the same rate as tax revenues. Under the white paper, total tax revenues will rise by 1.5 per cent, which is a somewhat marginal change.

This figure has been widely criticized as grossly underestimating tax revenue increases. Even if it is one tenth of the true one, a rise in gross tax revenues of 15 per cent is hardly Orwellian. And once again, we know nothing about the disposition of these taxes.

The group stated that they supported the objectives of the white paper — making the Canadian tax system more equitable.

In the above paper, we have shown the group's objectives to be not only misleading in themselves, but also inconsistent with these overall goals. It is typical of objections to the white paper coming from interest groups that they disguise their self interests in the furor of pious concern for the country as a whole.

For further confirmation of fact, do not write Colin Brown — look it up yourself.