

STUDY OF THE PRINCIPLES.

The first step, however, towards a correct system of taxation is the study of the principles on which it depends.

Adam Smith was one of the first to attempt to formulate the truths upon which a tax system should be based. His canons of taxation were in substance, convenience, economy, certainty and equality, and these I believe have been generally concurred in by Fawcett and subsequent writers, while their practical application has been no less generally neglected.

Taxes, therefore, would seem to be good or bad, in so far as they operate for or against the following principles:

(1) Good when they bear as lightly as possible upon production, so as to offer the least discouragement to the growth of the general fund from which they must be paid and the community supported.

Bad when they unnecessarily hinder the increase of wealth and comfort among the people as a whole.

(2) Good when they can be easily and cheaply assessed and collected.

Bad when they operate to cause the real taxpayer to pay in excess of what they actually yield the government.

(3) Good when they are certain and afford least opportunity for evasion on the part of those intended to bear the sacrifice.

Bad when they can be easily avoided by fraud or falsehood, and tend to increase proportionately the burden of the honest and truthful, or by adding to prices shift the burden on others.

(4) Good when they bear equally and put no citizen at a disadvantage as compared with his fellows.

Bad when their tendency is to take from the poverty of the poor and to add to the wealth of the rich, or when they oppress most heavily upon those who derive least benefit from the government; and also they are bad as they tempt one class to seek an increase of taxes to be imposed upon another class.

Government taxation assumes two main forms: 1, direct, and 2, indirect.

It exists by two necessary acts: 1, the assessment of values, and 2, the collection of wealth.

Is mainly guided by two principles: 1, taxation according to benefits; 2, taxation according to ability to pay, and is levied ostensibly for two purposes: 1, to provide a revenue for the requirements of government; 2, to protect wage-earners.

We are considering the proper method of raising necessary revenue: of the various forms in operation that will be deemed best, which most accords with what has been laid down as good in the principles just enunciated.

GENERAL INCOME TAX.

The first impression of most people probably favors a general income tax; a tax from incomes from earnings as well as from investments, and it may be cited in favor of this that it is in the nature of a direct tax. And that if levied exclusively at the sources of income it may with reasonable certainty be made to reach all

rents, dividends, corporate payments of interests, and perhaps interest upon mortgages; some incomes from invested wealth can then be reached, but not all of them.

John Stuart Mill says of the income tax, "that the fairness which belongs to it in principle cannot be made to attach to it in practice, and that it has such objections in practice that it should be reserved only for special emergencies."

Germany has long levied an income tax, and Prof. Goldwin Smith is quoted as saying that "there is no complaint in regard to it," and the same authority says: "In France the attempt to introduce it utterly failed." And just here it may be noted that Germany has an enormous and almost perfect military organization, which in the absence of foreign wars is an excellent factor in suppressing complaints.

In England the income tax is the largest of the internal taxes, and yields a large revenue, yet the organized opposition to it is strong and active, and at the very time of its introduction it was stigmatized by Sir Robert Peel as obnoxious and inquisitorial, and a tax which should be reserved for war.

TWO OBJECTIONS.

The income tax is open to at least two objections:

First, that it is extremely difficult to collect fairly, and the manner in which it is regarded and where possible evaded is best evidence of this, and is exemplified in various citations which have appeared in our own daily papers. That such a system as this works an injustice, puts a premium upon deception, and prompts an otherwise honorable man to stultify himself by avoiding his just share, must be apparent.

That the system operates to work this injustice is also apparent from the fact that while the assessment of the financial and professional classes is largely dependent upon their honor, or lack of honor, that of the clerk or mechanic can usually be obtained by application to his employer.

Secondly: Even where the income tax is a graduated tax it has not that fairness which would appear on its face.

It would not be possible where the method of collection was by levying on incomes at their source, and as a consequence the number of instances would be greatly increased in which the assessor would have to rely upon the word of the taxpayer, and incentive to evasion would therefore also increase.

The income tax also usually carries with it an exemption up to a certain amount and it then comes under the head of taxation according to superior ability to pay, and operates as a fine upon industry, thrift and frugality: it is taxing the actually and nominally rich for the benefit of the actually and nominally poor, and has no firmer foundation in equity than has a tax which operates in favor of the rich and to the detriment of the poor.

Thirdly: I think it can be shown that the income tax if paid at all is paid out of the savings, and herein tends to undo the very work we are ostensibly trying to do through the institution and encouragement of our savings bank system.