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CANADA

TAX SIMPLIFICATION

**REPORT OF THE STANDING COMMITTEE
ON FINANCE AND
ECONOMIC AFFAIRS**

HOUSE OF COMMONS

CHAMBRE DES COMMUNES

Issue No. 27

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Thursday, June 12, 1986

jeudi 12 juin 1986

Monday, June 16, 1986

lundi 16 juin 1986

Speaker: Don Blasko

Président: Don Blasko



CANADA

Minutes of Proceedings and Evidence of the
Standing Committee on

Procès-verbaux et témoignages du
Comité permanent des

TAX SIMPLIFICATION

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REPORT OF THE STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

RESPECTING:

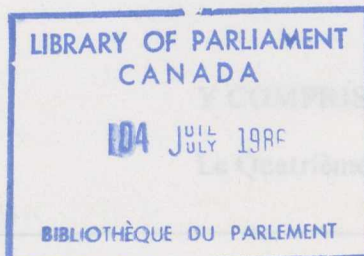
Order of Reference pursuant to
1987-88 relating to income Tax simplification.

en vertu de l'article 96(2) du
Règlement, ayant trait à l'impôt sur le revenu
simplifié.

INCLUDING:

The Report Made in the House.

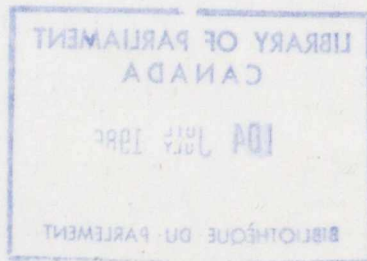
Le Rapport fait à la Chambre.





TAX SIMPLIFICATION

REPORT OF THE STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS



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Standing Committee on*

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Comité permanent des*

**Finance and Economic
Affairs**

**Finances et des
affaires économiques**

RESPECTING:

Order of Reference pursuant to Standing Order
96(2) in relation to Income Tax Simplification.

CONCERNANT:

Ordre de renvoi en vertu de l'article 96(2) du
Règlement, ayant trait à l'impôt sur le revenu
simplifié.

INCLUDING:

The Fourth Report to the House.

Y COMPRIS:

Le Quatrième Rapport à la Chambre.

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The Standing Committee on Finance and Economic Affairs has the honour to present to the House its

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This report presents some general observations on the tax system — the goals of an ideal tax system, the characteristics of any tax system and the need to realign analysis of the tax system to focus on simplifying the Income Tax Act and tax forms. Readers of this report will find two recent articles of special interest: (1) Stanley E. Edwards, "Drafting Fiscal Legislation," *Canadian Tax Journal*, Vol. 32, No. 4, July-August 1984 and (2) Dennis Thacker, "Down on the Form," *The Financial Post Magazine*, March 1, 1986.

GENERAL OBSERVATIONS

In relation to raising revenue efficiently, the ideal tax system is equitable and simple, and it assists the promotion of economic growth. Unfortunately, the goals of the ideal tax system often conflict. Changes made to make the system more equitable or to increase economic growth may make the system less simple. In fact since the early 1970's the tradeoffs between equity and simplicity and between growth and simplicity have been going one-sided: if one of the goals had to give, it was always simplicity. The result, of course, is a Tax Act that even experts find confusing and a tax form for the average taxpayer that is daunting in length and complexity.

Any tax system is defined by six characteristics:

1. who pays the tax,
2. the base to be taxed,
3. the rates to be applied to the base,
4. general exemptions,
5. general deductions, and
6. other selective measures.

The Standing Committee on Finance and Economic Affairs has the honour to present to the House its

FOURTH REPORT

In accordance with its mandate under Standing Order 96(2), the Committee considered the Department of Finance 1985 document entitled *Account of the Cost of Selective Tax Measures* and related issues of tax simplification and agreed to present a First Report examining the simplification of personal income taxation.

INTRODUCTION

Between the beginning of April and the end of May the Committee held ten meetings under Standing Order 96(2) to study the Department of Finance 1985 document *Account of the Cost of Selective Tax Measures*. The early meetings and the fifth meeting held April 22 with the Minister of Finance concentrated on the selective tax measures dealing with personal income tax. Discussion of these measures led to an examination of the complexity of the Canadian Income Tax Act and the tax forms used by the average taxpayer. In addition to the ten meetings devoted to tax, the Committee also heard on April 23 from the Minister of National Revenue on the Main Estimates for his department; many of the questions put to the Minister dealt with tax simplification.

This report presents some general observations on the tax system — **the goals of an ideal tax system, the characteristics of any tax system** and the need to realign analysis of the tax system to focus on simplifying the Income Tax Act and tax forms. Readers of this report will find two recent articles of special interest: (1) Stanley E. Edwards, "Drafting Fiscal Legislation," *Canadian Tax Journal*, Vol. 32, No. 4, July-August 1984 and (2) Dennis Thacker, "Down on the Form," *The Financial Post Magazine*, March 1, 1986.

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In addition to raising revenue efficiently, the ideal tax system is equitable and simple, and it assists the promotion of economic growth. Unfortunately, the goals of the ideal tax system often conflict. Changes made to make the system more equitable or to increase economic growth may make the system less simple. In fact since the early 1970's the tradeoffs between equity and simplicity and between growth and simplicity have been quite one-sided: if one of the goals had to give, it was always simplicity. The result, of course, is a Tax Act that even experts find confusing and a tax form for the average taxpayer that is daunting in length and complexity.

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6. other selective measures.

The nature of the six characteristics determines how much revenue is produced by the tax system, as well as the equity of the system and its ability to promote growth. It is the exemptions, deductions and other selective tax measures that make modern tax systems so complicated. There are in Canada, for example, over one hundred selective tax measures dealing with personal income tax. There are even more measures dealing with corporate tax.

The Income Tax Act includes the tax measures, and the tax forms must allow for them. Too often the tax system is changed – the changes rationalized in terms of improved equity or economic growth – with no attention to the possible increased complexity of the Tax Act and tax forms. The Act and forms are treated as matters that can take care of themselves – an attitude that provides no check on the ever-increasing complexity of the Tax Act and tax forms. The Committee believes that the analysis of the tax system must be realigned with attention devoted to simplifying both the Act and the forms.

Therefore, the Committee recommends:

- 1. That the Government make no changes to the income tax system without first examining the possible complexity these changes would introduce to the Income Tax Act and the tax forms.**

Such simplification is much more than a matter of cleaning up the Act and forms for the convenience of users, although this is in itself a worthy goal. Simplification lowers the costs of compliance with respect to the Income Tax Act. Too many Canadians now need professional help in filling out their tax returns. It is not, moreover, only those with unusual mixes of income and deductions who need help. Seventeen percent of those using the T1 Special form (a four page form for those with relatively straightforward reporting requirements) and 46 per cent of those using the T1 General form rely on the services of tax preparers. Those who do not use professional assistance must struggle through a frustrating form and, because the form is so complicated, worry that they have overpaid their taxes or that they have not taken advantage of some tax measures or that they have underpaid and face a costly reassessment with interest and penalties.

Even accountants, tax lawyers and others who must work with the Income Tax Act find it unduly complex. The work of these people is less efficient because of the uncertainty that arises from a poorly drafted Act. There is a real cost in terms of misused resources in having these people spend their time trying to translate the Tax Act into understandable English or French. There can be financial costs, too, if Revenue Canada interprets the Act differently.

The complexity in the structure of the tax system is, in large part, the fault of the piecemeal nature of tax change. No new tax measure by itself may be complicated, but when straightforward measures are piled upon each other the net effect is a system that is far from straightforward. (Furthermore, not all new measures are straightforward). The accumulation of new tax measures adds to the drafting complexity of the Act and keeps the forms from being greatly simplified.

In a brief to the Minister of Finance the Canadian Institute of Chartered Accountants commented on the problem of complexity in the tax system:

At present, even the “man-in-the-street” taxpayer is directed by the Guide to refer to pamphlets and Interpretation Bulletins on a number of points. The

dramatic growth of commercial tax preparation services bears testimony to the fact that more and more taxpayers are finding individual tax returns too complex to complete themselves. As for the professionals, some of our members who devote their entire careers to taxation confess that certain sections of the tax law are unclear to them.

When questioned about the horrendous burden faced by the ordinary citizen in filing a tax return, the Minister of National Revenue replied: "We cannot really hold out any hopes for dramatic improvement until we get some legislative changes."

This Committee is not in a position to recommend sweeping changes to the entire tax system that would simplify it at a stroke. Nevertheless, the Committee believes that the current tax system can be made less complicated.

Therefore, the Committee recommends:

2. **That the Government now begin examining measures that can be introduced to reverse the trend in the tax system that seems to make it more complicated with each Budget.**
3. **That the tax system should be used to promote equity or growth only if no other method is simpler or less costly.**

This recommendation does not mean that the Committee is unconcerned with equity and growth. What the Committee wishes to emphasize is that the goal of simplifying the tax system should no longer be ignored.

SIMPLIFYING THE INCOME TAX ACT

At a session devoted to tax simplification at the 1975 conference of the Canadian Tax Foundation, an expert in tax law stated: "It is quite apparent to me that in its present form the Income Tax Act is becoming unworkable". Almost a decade after this conference the president of the Institute of Chartered Accountants of Ontario summed up the Canadian Income Tax Act as "an unmitigated mess". The witnesses who appeared before the Committee and referred to the Tax Act were unanimous in finding the Act all but unreadable – and these witnesses were acknowledged experts in tax accounting and tax law. Some witnesses pointed out that the Act is becoming more complicated with each Budget.

The Committee had as one of its witnesses Mr. Stanley E. Edwards, an expert in tax law and author of the article "Drafting Fiscal Legislation" (*Canadian Tax Journal*, Vol. 32, No. 4, July-August 1984). His article and his testimony that was based in part on it added to the testimony of the accountants who appeared before the Committee and emphasized the need to redraft the Income Tax Act.

In part, of course, the growing complexity of the Income Tax Act merely reflects the growing complexity of the tax structure. Exemptions, deductions and other selective tax measures have been added to the Act with each new Budget. There are interrelationships among the tax measures, so a new measure (or even a slight change in an existing measure) can lead to the redrafting of many sections of the Act. The interrelationships and corresponding cross references in the Act obviously make the Act more complicated. As Mr. Edwards emphasized, no tax act will be simple. But this does not mean that Canadians should tolerate a garbled Tax Act.

Many people have been bemused by just how garbled the Tax Act has become. Discussing legislation of December 1985, the chairman of the Committee remarked:

... here we are, members of the House of Commons passing legislation that our advisors could not read, the Minister could not read, the committee could not read, and no one in the House of Commons could read.

Mr. J. Lyman MacInnis, an expert on taxation, amused an audience by imagining someone going to the Tax Act to find the definition of capital gains. After some effort the imaginary researcher discovers he must go to section 39 of the Act:

When you find section 39, you will also find that the fun is just beginning. Section 39 begins with a sentence that has 819 words, 32 commas and two semi-colons. Lincoln's entire Gettysburg address had only 267 words in it!

Section 39 has 10 sub-sections. It refers you to 10 other sections of the Act, which in turn refer you to another 50 sections. Section 39 also refers to three completely different laws called "The Bank Act", "The Quebec Savings Bank Act" and "The Cultural Property Export and Import Act". And, I'll bet you all have copies of *those* on your coffee table!

This speech ("A Tough Act to Follow", Toronto, May 1986) was obviously meant to be amusing. Someone actually struggling through the Act to pin down the definition of capital gains might not be amused.

Ironically, many problems in the current Tax Act began with attempts at major tax reform in the early 1970's. As Stanley E. Edwards explained:

Prior to the tax reform in 1971, the Income Act was a relatively simple document and relatively easy to understand. The 1971 tax reform bill seemed, when it was introduced, by comparison to be horrendously complex and difficult to those of us who had worked with the earlier statutes. In my opinion this was caused by several factors: first, an attempt by the designers to be very sophisticated and cover every conceivable situation; second, the introduction of a number of very difficult concepts to try to accomplish this purpose; and third, the adoption of a drafting style which was dedicated more to precision than it was to being readable or understandable.

This witness went on to remark that when taxpayers and their advisors found ways around some of the provisions, patchwork legislation was passed. When the intent of this legislation was circumvented, additional patchwork legislation was introduced. All the time this aspect of tax legislation was taking place, there were amendments to the Act for reasons of equity and growth.

The result is a mess, even if a mess based on the best intentions. Moreover, the Tax Act, although referred to by relatively few Canadians, is at the centre of the Canadian tax system. Any attempts to simplify the tax system must begin by redrafting the Act.

Although tax legislation has been criticized for centuries for being verbose and difficult to understand, there is nothing inherent in such legislation to keep it from being clearly drafted. An example of successful drafting of tax legislation is provided by the Province of Quebec. Several witnesses before the Committee pointed out that the Quebec Tax Act parallels the federal act on many points, but that the Quebec version is much easier to understand than the federal one. According to Gordon Riehl, a past president of the Canadian Tax Foundation, who appeared before the Committee, the

clarity of the Quebec version has led experts to go to it when having trouble interpreting the federal law.

The article "Drafting Fiscal Legislation" by Stanley E. Edwards contains examples of corresponding paragraphs from the Quebec and federal acts:

Compare, for example, paragraph 3(a) of the federal Act with the corresponding paragraph 28(a) of the Quebec Act. Paragraph 3(a) of the federal Act reads as follows:

- (a) determine the aggregate of amounts each of which is the taxpayer's income for the year (other than a capital gain from the disposition of a property) from a source inside or outside Canada, including, without restricting the generality of the foregoing, his income for the year from each office, employment, business and property...

Paragraph 28(a) is as follows:

- (a) add all this income for the year from each source, in Canada and any other place, except this taxable capital gains from disposition of property...

A similar comparison may be made between subsection 6(2) of the federal Act and section 41 of the Quebec Act, both of which related to the standby charge for automobiles. The same kind of comparison was drawn by Stikeman in his paper at the 1975 annual conference of the Canadian Tax Foundation between subsection 6(3) of the federal Act and sections 28 and 29 of the Quebec Act relating to certain payments by an employer to an employee.

Mr. Edwards points out that provisions in the Quebec Taxation Act do not suffer any serious loss of effectiveness because they are clearly written. If anything there should be a social gain from having an act that is written to be understood: clearly the experts who use the Quebec Act to interpret the federal Act gain from the effort the Quebec government spent in drafting its Act.

Obviously, there is a need to redraft the current Federal Income Tax Act and there exist examples of tax legislation that provide models for this redrafting.

Therefore, the Committee recommends:

4. That Revenue Canada employ a team to redraft the current Income Tax Act to make it readable and understandable.

5. That the redrafting team follow the example of Quebec and make the federal Act at least as understandable as the Quebec Income Taxation Act.

6. That the redrafting team consider the following arrangement for each topic covered in the Act:

- a) set out the general rule in one provision;
- b) set out in subsequent provisions the sequence of the exceptions, qualifications, special rules, administrative provision and definitions;

- c) put the provisions with the broadest application before those dealing with special cases;
- d) put more important provisions before less important ones;
- e) follow with technical housekeeping and administrative provisions; and
- f) put detailed rules and explanations in the regulations, using examples when appropriate. (See the Edwards article cited in the Introduction to this report and the references in that article.)

7. That if the redrafting team discovers major drafting problems that seem to be caused by relatively minor tax measures, these tax measures should be brought to the attention of this Committee and the Minister of Finance who should consider the advisability of eliminating these measures or modifying them to simplify the drafting of the Act.

These recommendations are not a call for a drastic revision of the Income Tax Act. The redrafted Act will be almost identical in intent with the current Act. Drafting considerations should continue to be an important part of tax policy.

Therefore, the Committee recommends:

- 8. That future proposals to change the Tax Act should consider the implications on drafting.
- 9. That although drafters should not determine economic and social policy, they should have an early voice in any discussion of proposed tax legislation and should always be involved in the process leading to a change in the Act.

SIMPLIFYING TAX RETURNS

To most Canadians the tax system is not represented by the Income Tax Act. Instead, the tax system means the tax forms – the guide and tax return – that the average citizen grapples with each year. Like the Act, the tax forms are a source of confusion, and the confusion is getting worse each year. Gordon Riehl compared the T1 short form of thirty years ago with the current T1 general form for Ontario residents; thirty years ago the form was four pages, now it is 84. As that witness remarked: "The challenge to you is that in another 30 years you are going to have 1,344 pages".

Extrapolation may not be the best way to forecast the growth of the tax forms, but there is little doubt that the form is becoming more complicated each year. According to the Deputy Minister (Taxation) from the Department of National Revenue, the 1986 Budget will add 27 lines to the general form.

The increasing complexity of the tax forms imposes real costs on Canadians. Fifteen million Canadians file tax returns (five million use the T1 Special form and ten million use the T1 General form), and over one third of these filers use the services of tax preparers. It is important to keep in mind that the Canadian system is based on self-assessment – taxpayers list their total income, subtract the allowable deductions and exemptions and pay tax on the remaining (or taxable) income. Last year more than five million taxpayers used outside assistance to help them comply with an honour system.

As tax forms become more complicated more filers will need assistance with their tax returns. In other words, the costs of compliance with the Tax Act will increase; taxpayers will either bear the extra cost or find ways to avoid compliance. The latter has not been a significant problem in Canada, but this state of affairs could change. Ultimately, citizens must understand the laws they are to obey.

Immigrants in Canada provide a good example of residents who suffer from our complicated tax system. Many come from countries where income tax is not based on self-assessment, so they are unfamiliar with the Canadian process of filing tax returns. Furthermore, many immigrants are not yet comfortable with either official language. The result is that many of these immigrants seek help filing returns from someone who speaks their native language and English or French. The people helping to prepare the tax returns may be fluent in two or more languages, but they may have no expertise, or even competence, in tax accounting or tax law. Immigrants sometimes end up paying for what might be incompetent assistance; they are unlikely to appreciate the irony that someone fluent in English or French is as bewildered as they are by Canadian tax forms.

It is not only taxpayers who bear the cost of complicated tax forms. Administration costs also rise with increased complexity, because it becomes more difficult and costly to review the tax returns. Computers may help to lower processing costs, of course, but it is still true that the complexity of tax forms adds to Revenue Canada's expenses.

Revenue Canada thus has an incentive to keep the tax forms as simple as possible. They have in general done a good job. The Committee was impressed by the work of Revenue Canada in pursuing ways of simplifying existing tax forms – both the T1 Special and the T1 General – and in searching for new ways to simplify that part of the tax system under its management.

As was the case with the Tax Act, much of the complexity in the tax forms results from the tax legislation that is passed, legislation that has generally ignored its effects on the drafting of the Tax Act or the designing of tax forms. A recent article by Dennis Thacker, an accountant, ("Down on the Form", *The Financial Post Magazine*, March 1, 1986) provides a useful summary of changes that have affected tax forms since the early 1970's. Once again, significant changes and the start of the trend to greater complexity came with the 1971 tax reform. The capital gains tax was part of the reform, as were the following items:

- UIC overpayment refunds
- Employment expenses deductible
- Childcare allowance
- Education allowance
- Disability allowance
- UIC benefits taxable

In subsequent years, the following items complicated the tax forms:

- | | |
|------|--|
| 1974 | Family allowance taxable |
| | Registered home-ownership plans (RHOSPs) |
| | Interest income (\$1,000 limit) deductible |
| | Gifts to Canada or a province |
| 1975 | Political contribution tax credit |
| | Pension income (\$1,000 limit) deductible |

	Eligible deductions transferable from spouse Investment tax credit
1976	Federal surtax (temporary)
1977	Federal and general tax reduction (temporary) Additional child tax reduction (temporary)
1978	Employment tax credit
1979	UIC benefits repayment Mortgage interest credit (a Crosbie introduction that made the form, but not legislation) Child tax credit
1982	Forward averaging replaces general averaging Spouse's federal tax reduction transferable
1983	ISIPs Share purchase tax credit
1984	Elimination of Standard \$100 medical/charitable donation deduction Stock options deductible Scientific research tax credit
1985	Capital-gains exemption Federal surtax (temporary) RHOSPs cancelled

Only in two years (1980 and 1981) were the forms almost identical. Change in the forms, even if the forms stay the same number of pages, makes filling out a tax form confusing: struggling with the form one year does not mean that the task will be easier the following year.

There appears to be a constant struggle between the goals of equity and tax simplification. The Committee is by no means suggesting that the notion of equity currently implicit in the tax system be abandoned. In fact, the Committee has been careful to ensure that no recommendation in this report upsets the balance of costs and benefits that result from Canada's current social and economic policy. By itself, simplification of the tax system might change the balance of costs and benefits, but there are other instruments of social and economic policy that can counter any changes. The net effect will be that the costs of a complicated tax system will have been reduced.

Therefore, the Committee recommends:

- 10. That the Government review the current package of exemptions, deductions and special tax measures to see whether the benefits from these can be provided in a simpler manner, by some method outside of the tax system, or by adjusting tax rates or general exemptions.**

Most of these comments about simplifying the income tax form deal with the T1 General form, which is used by two-thirds of Canadian taxpayers. The T1 Special form, which is four pages, is an attempt by Revenue Canada to simplify the tax system for some Canadians. The Committee would also like to see this form simplified, although with the tax system now in place, shortening the T1 Special form would mean that fewer taxpayers could use it.

The PAYE (Pay As You Earn) tax system in the United Kingdom has enormously simplified paying taxes for 17 million of its 25 million taxpayers – these 17 million never have to bother filing a tax return. Instead, their employers must file for each employee a complicated form with the tax administrators, a form coded to allow for every variation in the taxpayer's situation. There are about 400 codes used, and these allow the calculation of tax that is to be withheld by the employer. Although PAYE is simple for the taxpayer, it produces immense paper burden for employers and tax administrators. It has the additional disadvantage that employees do not see themselves as part of a self-assessment tax system.

Discussion of PAYE during the Committee hearings did lead to the discussion of one possible simplification to the Canadian tax system, namely the use of a questionnaire tax form. With this form the taxpayer responds to a list of questions (What was your income? How many children do you have? How much interest income did you have?...) and Revenue Canada, with the aid of its computers, calculates taxable income and taxes owed. Such a questionnaire form could replace the T1 Special form and, depending on the list of questions, cover many taxpayers who now use the T1 General form. Revenue Canada is to be complimented for the work they have already undertaken in this area, work that includes a possible pilot project in the near future, and they should be urged to give this work a high priority.

Therefore, the Committee recommends:

11. That Revenue Canada examine the possibility of introducing a questionnaire tax form for the 1986 tax year.

Along with simplifying the tax paying process by developing a questionnaire tax form there are several other approaches that should be taken. Several exemptions could be incorporated in the tax tables instead of adding lines to the tax returns and tax guides. An example is the employment expenses deduction. This deduction, which shows up on line 108 of both the T1 General and T1 Special forms, allows a deduction of \$500 for filers with total employment income above \$2500 or a deduction of 20 per cent of income for levels below \$2500. The explanation for this deduction in the T1 General guide takes over ten lines. Removing these lines may seem like a small step towards tax simplification, but it is an important first step, and one that shows that simplification does not necessarily lead to the elimination of benefits.

Therefore, the Committee recommends:

12. That wherever possible Revenue Canada eliminate lines from the tax return and tax guide by incorporating the implicit calculation for exemptions or deductions in the tax table.

A second approach involves the use of joint returns. The Canadian Institute of Chartered Accountants has referred to the current treatment of "family unit income" as schizophrenic – some tax rules inhibit the transfer of income from one spouse to another while other rules promote such transfers. Certainly, the current system complicates tax planning and adds confusion to tax forms. The treatment of families in general is a source of incredible complication for tax forms. The calculation of child care expenses has befuddled many who can claim these expenses; those who cannot claim these (or similar) expenses must still skim through a complicated tax form to determine what provisions are applicable to them.

The Committee recognizes that changing social policy is beyond its mandate, but wants to emphasize that too many tax filers bear the costs of coping with tax forms that

are complicated by provisions that are not relevant to them. Other countries use joint returns to avoid some of these problems. The Canadian tax system could be simplified by offering family units the choice of filing individual or joint returns.

Therefore the Committee recommends:

13. That the Minister of Finance consider the advisability of amending the Income Tax Act to allow spouses the opportunity of filing joint income tax returns.

Taxation statistics produced by Revenue Canada and based on tax return data are often misleading and, accordingly, often misused. Many amendments and proposed amendments to the Income Tax Act are sincere attempts to make the tax system fairer. Because the statistics that led to the amendments are biased, however, the amendments do not necessarily make the system fairer, but certainly make it more confusing. The tax system has become a vicious circle: the initial confusion leads to misleading statistics; the statistics are innocently misused to show an inequity in the system; patchwork legislation is drafted to correct the supposed inequity; and the amended Tax Act is even more confusing than before.

The biases in the statistics show up in the income statistics, especially in the total income series. The tax treatment of dividend income involves the grossing up of Canadian dividends, and it is the grossed up amount that is included in the series for total income. Grossing up involves reporting more than the amount of dividends actually received. Before 1986 filers reported 150 per cent of their dividends; starting in 1986 filers will report 133 1/3 per cent of dividends. A dividend tax credit counters the increase in reported dividend income, but the calculation of this credit does not affect reported total income.

Another bias is that income from investments is shown as its gross amount and not net of any interest paid to finance the investments. Thus the total income series does not show total income received, which is what most people would expect to find in such a series, but rather an artificial series based on the complicated tax return. Anyone who matches the total income series with taxes paid by income class might see apparent inequities. Some or all of these could be artificial resulting from the way Revenue Canada presents its statistics.

This report does not suggest that there are no inequities remaining in the current tax system. (What constitutes an inequity will be different, of course, for different observers, so it is always difficult to make any categorical statements.) The emphasis in this report has, however, been on simplification. Misleading statistics lead to more confusion and complications in the tax system – and possibly to less equity.

Therefore, the Committee recommends:

14. That Revenue Canada, with counsel from the Department of Finance and Statistics Canada, review its tax statistics and attempt to correct any bias that may exist in the recording of total, net and taxable income.

This report has focused on simplification of the Income Tax Act and tax forms. During the Committee hearings several witnesses discussed specific tax measures that add considerable confusion to the current tax system. The measures most often discussed were the proposed Alternative Minimum Tax, capital gains tax and the recent lifetime exemption for individuals of \$500,000 in capital gains. The Committee would hope to deal in subsequent reports with some of these measures and provide specific

recommendations. For now, the Committee notes that too many tax measures have been proposed or introduced with no consideration given to the confusion these measures add to the tax system.

This First Report deals exclusively with tax simplification and not tax policy. The recommendations in this report do not amount to a call for a drastic revision in the tax system, at least as the term "drastic revision" is most often used. As the Committee proceeds with its work, it will deal with specific tax measures and issue subsequent reports.

In one important respect, however, the recommendations above do call for drastic change – the trend, which has taken place for a generation, whereby the tax system becomes more and more complicated with each Budget must be reversed. People must be able to read and understand the Income Tax Act. Citizens must be able to read and understand the tax forms they are required to submit. The Committee believes that the Government must begin now to simplify the tax system.

A copy of the relevant Minutes of Proceedings and Evidence of the Standing Committee on Finance and Economic Affairs (*Issues No. 2, 3, 4, 8, 10, 16, 18, 20, 21, 23 and 27 which includes this report*) is tabled.

COOPERS AND LYBRAND

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Deputy Minister (Taxation)

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Director of Taxation

THE HONOURABLE MICHAEL WILSON

Minister of Finance

recommendations for how the Committee notes that too many tax measures have been proposed or introduced with no consideration given to the overall effect on the tax system.

This First Report deals exclusively with tax simplification and not tax policy. The recommendations in this report do not amount to a call for a drastic revision in the tax system, but as the term "basic revision" is mentioned in the Committee's report, it will deal with specific tax measures and their implementation.

an important report however, the recommendations show a call for drastic change in the trend which has taken place for a generation, whereby the tax system becomes more and more complicated with each Budget. Budgets must be able to be understood and understood by the Income Tax Act. Changes must be made to read and understand the tax system. The Committee believes that the Government must begin to simplify the tax system. The Committee believes that the members of the Royal Commission on the Tax System should be given the opportunity to study the tax system. A copy of the Royal Minutes of Proceedings and Evidence of the Standing Committee on Finance and Economic Affairs (Volume 1, 1978-79, pp. 10-11, 13-14, 17-18, 20-21, 23 and 27 which includes this report) is tabled.

in this report, the Committee notes that in the words contained in the report of the Royal Commission on the Tax System, the Committee notes that the tax system is becoming more and more complicated with each Budget. Budgets must be able to be understood and understood by the Income Tax Act. Changes must be made to read and understand the tax system. The Committee believes that the Government must begin to simplify the tax system. The Committee believes that the members of the Royal Commission on the Tax System should be given the opportunity to study the tax system. A copy of the Royal Minutes of Proceedings and Evidence of the Standing Committee on Finance and Economic Affairs (Volume 1, 1978-79, pp. 10-11, 13-14, 17-18, 20-21, 23 and 27 which includes this report) is tabled.

DON BLEKAR, M.P.

not amount to a gross total as shown in the report of the Royal Commission on the Tax System. Thus the total income series does not represent the total income of the population. The Committee notes that the tax system is becoming more and more complicated with each Budget. Budgets must be able to be understood and understood by the Income Tax Act. Changes must be made to read and understand the tax system. The Committee believes that the Government must begin to simplify the tax system. The Committee believes that the members of the Royal Commission on the Tax System should be given the opportunity to study the tax system. A copy of the Royal Minutes of Proceedings and Evidence of the Standing Committee on Finance and Economic Affairs (Volume 1, 1978-79, pp. 10-11, 13-14, 17-18, 20-21, 23 and 27 which includes this report) is tabled.

This report does not suggest that there are no inequities remaining in the current tax system. (What constitutes an inequity will be different, of course, for different opinions, so it is always difficult to make any categorical statements.) The emphasis in this report has, however, been on simplification. Misleading statistics lead to more confusion and complications in the tax system - and possibly to less equity.

Therefore, the Committee recommends:

- 1. That Revenue Canada, with counsel from the Department of Finance and Statistics Canada, review its tax statistics and attempt to correct any bias that may exist in the recording of total, net and taxable income.

This report has focused on simplification of the Income Tax Act and tax forms. During the Committee hearings several witnesses discussed specific tax measures that add considerable confusion to the current tax system. The measures most often discussed were the proposed Alternative Minimum Tax, capital gains tax and the recent income exemption for individuals of \$500,000 in capital gains. The Committee would like to deal in subsequent reports with some of these measures and provide specific

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MINUTES OF PROCEEDINGS

THURSDAY, June 12, 1986.

(29)

(TEXT)

The Standing Committee on Finance and Economic Affairs met, *in camera* at 9:39 o'clock a.m. this day, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Murray Dorin, Paul McCrossan, George Minaker, Aideen Nicholson, Nelson Riis Norman Warner and Geoff Wilson.

In attendance: From the Research Branch of the Library of Parliament: Terrence J. Thomas and Laurent Desbois, Research Officers.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of its study in relation to income tax simplification. (*See Minutes of Proceedings and Evidence, Tuesday, April 8 1986, Issue No. 2*)

The Committee proceeded to the consideration of a Draft Report to the House.

At 11:39 o'clock a.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

MONDAY, June 16, 1986,
(30)

The Standing Committee on Finance and Economic Affairs met *in camera* at 7:37 o'clock p.m. this day, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Paul McCrossan, George Minaker, Aideen Nicholson, Nelson Riis and Norman Warner.

In attendance: From the Research Branch of the Library of Parliament: Terrence J. Thomas and Laurent Desbois, Research Officers.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of its study in relation to tax simplification. (*See Minutes of Proceedings and Evidence of Tuesday, April 8, 1986, Issue No. 2*).

The Committee resumed consideration of a Draft Report to the House.

At 7:58 o'clock p.m., the sitting was suspended.

At 8:33 o'clock p.m., the sitting resumed.

The Committee resumed consideration of a Draft Report to the House.

By unanimous consent, it was agreed,—That the Draft Report, as amended, be concurred in.

MINUTES OF PROCEEDINGS
ORDERED—That the Chairman present to the House the Draft Report, as amended, as the Committee's Fourth Report to the House, on Wednesday, June 18 or Thursday, June 19, 1986.

At 9:46 o'clock p.m., the Committee adjourned to the call of the Chair.

(TEXT)
The Standing Committee on Finance and Economic Affairs met in camera at 9:39 o'clock a.m. this day, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attwell, Don Blenkarn, Murray Dorn, Paul McCrossan, George Minsker, Aileen Nicholson, Nelson Riis and Norman Warner and Geoff Wilson.

In attendance: From the Research Branch of the Library of Parliament: Terrence J. Thomas and Laurent Despois, Research Officers.

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The Committee resumed consideration of a Draft Report to the House.

At 7:58 o'clock p.m., the sitting was suspended.

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