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WITH two taxation investigations under way in Canada, there is a natural and widespread interest in the Dominion's taxation system. No one in the world seems to have yet worked out a tax plan that would be generally acceptable. It is impossible to take as standard the intricate mass of taxes that exists in Canada today.

Taxation starts with the necessity of the State, which exists because individuals who live together in a society want services that can be provided only by organization.

Unfortunately, costs of government cannot as a rule be measured and allocated to individuals, and people are compelled to accept the services, however good or inefficient they may be, and to pay the price, whatever charge be made. Since Biblical times the story of political development, and of the rise and fall of states, has been inextricably woven with the problem of the levying of taxes and their use by governments. Eleven of the first twelve sections in Magna Carta are directly concerned with taxation. All thinking people in all ages have recognized that the methods and application of taxation have a tremendous impact upon production, enterprise, jobs, prosperity and the growth of civilization. It is possible for a government in seeking one good, or a good for a certain section of the community, to lay waste or seriously hamper development that would have resulted in much greater good for a much greater number.

The father of political economy, Adam Smith, laid down these canons of taxation: Equality—"the subjects of every state ought to contribute towards the support of government, as nearly as possible, in proportion to their respective abilities." Certainty—"a tax ought to be certain, and not arbitrary." Convenience—"every tax ought to be levied at the time, or in the manner most likely to be convenient for the contributor to pay it." Economy—"every tax ought to be so contrived as both to take out and to keep out of the hands of the people as little as possible over and above what it brings into the public treasury." To these might be added another rule made desirable by modern developments: all expenses of the state should be met by direct taxation, lest the invisibility of taxation should divert public attention from governmental extravagance.

Efficiency in taxation means more than economy in collection. In its more important sense it means collection of the necessary revenue for the greatest good of the citizens with the least possible burden on the national income. The Royal Commission on Dominion-Provincial Relations which presented its report in 1940 found the Canadian system failing on both counts. The report referred to "duplicate taxation machinery, inadequate and divided jurisdiction, and lack of uniformity," all contributing to unnecessary expense and reduced returns. On the other point, "the lack of co-ordination in tax policies, and the almost uniquely high proportion of the Canadian taxation burden on costs rather than on profits, reduce the Canadian national income seriously," through restriction of marginal investment, production and employment, and through obstruction of the use of fiscal policy as a stimulant.

It cannot be too much emphasized that the ultimate source of all revenue is the national income, and the amounts so used are, of course, not available for the use of the individual members of society who produce them, or for the expansion of the means of production. This table, prepared by the Citizens' Research Institute of Canada, shows the relation of governmental expenditure to national income in four representative years:

Governments	1926	1933	1939	1942
	(per cent of national income)			
Dominion	8.07	17.13	16.72	War 40.00 Non-war 7.65
Provincial	2.79	6.98	6.25	4.13
Municipal	6.79	12.38	8.14	5.38
Combined	17.65	36.49	31.11	57.16

This tabulation leads inevitably to consideration of the cost of government. It has been said often that Canada has too much government. Certainly there is room for a greater co-ordination of government. Too great attention was given, in the pre-war years, to increasing revenue from taxation, and not enough to seeking means of reducing expenditures which increase taxation. However, those who believe in economy in government have a difficult stand to maintain against the persistence of special interests which seek to attain their purposes, laudable and otherwise, through the expenditure of public money. In the last

few generations there has been a big change in the services rendered by governments, some of it brought about by growth in population and in wealth; but the costs of government have outstripped both. Before the 1914-18 war the cost of federal government was less than 8 per cent of the national income; in 1939 it was nearly 17 per cent, and in the post-war years it may well be 25 per cent. Happily, increased wealth carries with it ability to bear a greater burden of taxation than our forefathers could have done, but there has never been a time when its weight pressed so heavily upon economic life.

War has, of necessity, brought taxation to a point that would have been intolerable in times of peace. Defence of Canada transcends all private rights, and the feeling is general that any limitation of war expenditure would be suicidal. There is not much nicety, in time of war, in deciding where the money is to come from, but there is no reason why consideration should not be given to a reasonable adjustment of taxation at war's end looking toward a re-establishment of industry. In peacetime, taxation will become again an economic and social problem, and the wisdom or folly of taxation policies will govern the whole national progress and development.

Because of its large-scale intervention in the economic life of the country, the Dominion Government finds itself committed to many responsibilities, and at the same time it has created a claim for itself to collect the necessary revenue. Only a nation-wide scrutiny can find a solution of the financial and administrative problems which are so complex as between the federal, provincial and municipal governments. If sectionalism or special interests are given their heads, it will not only prevent the reaching of a sensible answer, but will defeat the very objectives for which sections and interests fight.

No Canadians can, from the most selfish viewpoint, contemplate with unconcern the public or private insolvency of their neighbours. As investors, they will be adversely affected; as producers, they will suffer by destruction of markets; as citizens, their standards will be lowered by admittance of inter-provincial migrants who are less well-educated, less healthy, or of a substandard labour quality. Another reason that cries aloud for a rational policy of service and taxation is the danger to national unity if residents in one province come to feel that their interests are disregarded by more prosperous neighbours.

It having been conceded that it is the duty of every citizen to contribute to the support of the government of his country in accordance with his ability, it may be postulated that no measure of that ability is more equitable than his income. Tax on income can be fair and flexible, whereas sales and corporation taxes are almost bound to be unfair in their impact, and depressing on industrial activity. Canada's federal income tax on individuals, which was introduced largely as a war measure in 1917, was retained throughout the inter-war years and tremendously increased since this war started. In the higher brackets of Canadian incomes, the levy is just short of 100 per cent.

It is interesting to compare the income taxes paid in Canada and the United States, adjoining countries whose economies and standards of living are so similar. The following comparison, made in December by the Financial Post, refers to a married man with no dependents, and is based upon 1944 payments:

Gross Income	Canada	United States	Percentage by which Canadian rates are higher
\$ 2,000	\$ 329	\$ 130	153
3,000	732	360	103
5,000	1,628	850	92
10,000	4,262	2,400	78
20,000	10,779	7,035	53
50,000	34,253	27,210	26
100,000	78,687	68,985	14

The New Year message of the Minister of Finance to the people of Canada carried no hope of reduction in the general field of taxation in 1945. "It may well be that the New Year will bring new strains, and demand greater material sacrifices, than have so far been necessary in Canada," he declared, adding that he saw no strong hope that governmental expenditures would be materially lower this year.

Theoretically, taxation should bear in some degree on all income, but governments are notoriously likely to turn to the easiest sources, and they must take cognizance of the fact that there is little use in collecting tax from a small income with one hand and supplementing that income with the other hand through social welfare aids. Thus there arises the cry: "Soak the Rich." This becomes distorted into the levying of taxes solely to satisfy a demand for redistributing wealth. It has been going on for a long time: Isocrates, the philosopher declared in 354 B.C. that persons who made money were looked upon as criminals, and punished worse than criminals.

Some people single out business, and assert that in peacetime, no less than in wartime, profits should be confiscated by the state. But while business can sacrifice, and sacrifice greatly, for a short time of emergency, continued crippling of its resources will inevitably lead to stagnation of trade, the collapse of the national income, and depression. Prosperity will not come to post-war Canada by putting the brakes on business.

The development of corporation taxes in Canada has not been any more carefully planned than any other phase of the taxation system. As a study of the Citizens' Research Institute said in 1937, it was for the most part "the outcome of pressure and following the line of least resistance. Corporations, in addition to having no souls, had comparatively few votes and, as the event has shown, few effective friends." The Royal Commission said of corporation taxes, "the present complexity is beyond belief; they have grown up in a completely unplanned and unco-ordinated way, and violate every canon of sound taxation."

Few persons argue that corporations should be freed from all taxation. They receive certain benefits from the state in addition to benefits received by

individuals, and should be subject to certain specific taxation in addition to the taxation paid by their stockholders on dividends. But the amount should be based on considerations of equity and economic soundness, taking into consideration the contributions of tax-paying stockholders and the services which corporations render to society as employers of labour.

Firms which are struggling to survive may find that taxes affecting their costs of production compel them to raise their prices, and sales fall off. They may find that business has become actually unprofitable, and they will tend to disappear, while other firms in the same line, which had formerly been comfortably profitable, in turn become marginal. New enterprises will be held back from entering a business in which costs have been raised by taxation and consumption restricted by high prices. As a result, both labour and capital resources are thrown out of employment, the national income diminishes, out of the national income must be found a larger amount than before to care for the unemployed at public expense, and the vicious circle is completed by imposition of still more taxes bearing on costs.

This must not be allowed to happen if Canada is to surmount the difficulties of post-war reorganization. A maximum stimulus must be provided to private investment in plant and equipment, both for reconversion and expansion, because in these fields lies the hope for fullest employment. Fiscal policy alone cannot solve the problem of employment, but an adequate fiscal plan, known to all who must participate in it, is necessary to help sustain an economy of high employment. Employers are eager to provide jobs; idle factories do not make money. But many of the factors which make profitable operation possible are not within control of the employers: taxation, the facilitating of foreign trade, the handling of foreign exchange, the wisdom of the labour department in handling labour relations. If these, which are under government guidance, are so treated as to stimulate business activity and spur production, then jobs will exist. If these factors in Canada's economy are not properly handled, then there will be fewer jobs. Confiscatory taxation is equivalent to seizing the tools needed for expansion and reconstruction, whereas Canada is going to need a very large volume of investment to provide tools and jobs. Those who have the habit of saving must not be discouraged, for that would indubitably stunt the growth of capital, and lead to national stagnation. Because, after all, the only way wealth is created is by saving money and plowing it back into industry.

Tax reform could make an impressive beginning by wiping out the double taxation involved in taxing earnings as part of a corporation's income and then taxing the same earnings as part of a shareholder's income. It has been done in the United Kingdom, where the shareholder is given an exemption in his personal income tax on dividend payments which already have paid the excess profits tax. A tax on corporation earnings is a tax against the individual owners, in which the earnings of the small investor with a small income are taxed at the same rate as

those of the investor with a large income. Scores of thousands of small stockholders are victims of the inequity of this double taxation. The earnings are first taxed in the hands of the corporation at full, identical rates for all stockholders, and then the portion of the earnings distributed as dividends is taxed again, but this at progressive rates. This double taxing is undoubtedly a powerful deterrent to the flow of capital into enterprise.

There are other double taxes. A way will probably be found to eliminate the duplication of income tax, in which the provinces and municipalities as well as the Dominion have taken slices from individual incomes. In the field of succession duties there is not the same immediate expectation, because every province has seemed determined to get all it can without consideration of equity or final economic results. However, there is a hopeful sign in the agreement recently concluded by Ontario and Quebec. Dominion administration, with distribution among the provinces of death duty taxation on some equitable basis, seems to be the only reasonable way to eliminate double or triple taxation. There is room for vast improvement, too, in the international field. The taxes fairly and reasonably imposed by a single country become an intolerable burden if they are piled upon similar taxes which another country may levy on the same property or income. In the field of succession duties or inheritance taxes there can be complete chaos, because these may be imposed by the country of domicile of the deceased, the country of which he was resident, the country in which the property is located, and the country in which the beneficiaries live, and doubtless other countries could make out claims.

Probably no tax causes debate equal to the sales tax. By some it is regarded as an unmitigated evil, while others think that, because its incidence is so well hidden, it is a good thing. The federal sales tax was introduced in 1920. It nearly disappeared in 1930, when the rate dropped to 1 per cent, but it was such a present aid in time of trouble that by 1936 it had climbed to the present 8 per cent, and in the last fiscal year it yielded \$339 million. On two counts, the sales tax is unpopular: from the viewpoint of manufacturers, it adds to the price and reduces sales, and from the viewpoint of the consumer, it increases the cost of living. The federal tax is concealed, so far as the consumer is concerned, but from an administrative viewpoint it stands high. If, however, there is virtue administratively in the cheapness of collection and in the concealed nature of the effects of the sales tax on the cost of living, these are the chief arguments against it economically. Economists like to see in black and white just where they are going, and what is the impact of taxes, costs and profits. A recent United States opinion says there is little justification for a federal sales tax, from a fiscal and monetary standpoint. It generally tends to be deflationary, and therefore harmful in periods of low consumer spending. When inflation threatens, and deflationary pressure may be needed, equally good results can be obtained by prompt adjustment of income tax rates.

In addition to taxes for revenue, there are what might be called punitive taxes, designed to direct public spending into or away from certain fields, thus using the power of taxation to attain other than fiscal ends. Of course, there are clashes between the fiscal and the allegedly moral or economic reasons. Insofar as taxation is used to reduce the drinking of whiskey, attendance at horse races or the importing of foreign goods, it fails to raise revenue. As a consequence, unequal strains are forced upon other parts of the system. There is room for honest difference of opinion, but many hold the view that taxes are of little avail in reducing evils, and that taxation primarily concerned with levelling incomes and equalizing wealth is dishonest taxation. So-called luxury taxes serve but to perpetuate the superstition that the salvation of the poor is through the persecution of the rich, because in these days of high-standard living there is no possible criterion by which "luxury" may be separated from "necessity", depending upon the level of living attained.

It is expected that some workable reform will come out of the study being made of the problem of succession duties. As the law now is, people who have operated industries successfully for many years are compelled to sacrifice their businesses to prevent later forced liquidation to meet succession duties. These taxes—succession duties, inheritance taxes, estate taxes and death duties—have doubtless become a permanent part of the taxation picture, because they offer governments rich returns at little collection cost, they impose no hardships on their former owners, now dead, and any hardships inflicted upon the beneficiaries awaken little sympathy among the masses who never expect to inherit anything. However, practical taxation questions involve the incidence of the levies, the amounts which are to be exempt, the effect on business and industry, and the withdrawing for government projects of sums which would otherwise make their way into the blood stream of enterprise.

Excise taxes on some goods are undoubtedly beneficial, or at least relatively harmless in their impact upon the national welfare. They provide an anchor to windward, deflationary in character, which can be varied from budget to budget as experience shows desirable after the effects of other tax measures are evident.

Exemption from taxation becomes a bugbear to all governments. It grows imperceptibly from small beginnings, perhaps good in themselves. Then the base broadens, or the exempted properties grow, until the revenue-collecting powers of the government are seriously curtailed, and the tax share of the exempted properties is spread over the rest of the economy. It is being argued that there can be no sound reason for exempting from taxation the property of any undertaking conducted for profit, or of any public utility that supports itself out of its own revenues. It is maintained by the Income Tax Payers' Association

that ordinary individually-owned or partnership or corporate business should not be expected to thrive and compete with competitors who are income-tax exempt. The same kind of business may be carried on by a profit-making corporation, a co-operative and a publicly-owned enterprise, in competition with one another in the same market. Hundreds of enterprises, co-operatives, mutuals and publicly-owned businesses, pay no taxes on their earnings, even in the crisis of war, and many will emerge after the war with great surpluses which will give them an enormous advantage over their tax-paying competitors.

Government industrial corporations have appeared on the scene in large numbers, presenting many municipalities with new problems. These, and public utilities owned and operated by public authorities, receive the same services as plants which are privately owned; their employees and their families also receive municipal services. If these persons were employed in private enterprises the cost would be the same, but the enterprises would pay their share. A few months ago the Montreal Light, Heat and Power Consolidated was converted from a private to a state enterprise. To make up the loss of revenue to the federal treasury, a million Canadians in all parts of the country would have to contribute six dollars each a year in additional income tax.

The situation of the local taxpayer has become very acute because of the narrowing of the base upon which real property tax is levied, and the rising popular demand for new social services. The first principle of Adam Smith, "Equality," would seem to demand that taxation be evenly distributed over all property of a similar kind, irrespective of ownership. But during the past twenty years the total valuations for local taxation have declined. According to the Annual Report of the Assessors' Department there was property in the City of Montreal totalling \$1,269 million in 1943, of which \$345 million was exempt, a little over 25 per cent.

It is evident from this cursory survey of the tax field that there is wide room for improvement. The two commissions now at work represent only a start. Canada's taxation system needs to be overhauled. This is the concensus of politicians of all parties, economists, businessmen and ordinary taxpayers. Improvement is necessary not only to remove intolerable injustices but to prepare for the trying post-war period. The system has grown up as the result of fiscal and political opportunism. Canada must have a reasoned, coherent programme, designed to adjust the revenue acts to new objectives, and set taxation in the framework of fiscal and monetary policy designed to provide the soundest basis for a peacetime economy. It is merely a counsel of self-preservation to say that there should be the most careful and co-operative study by taxpayers and experts to design a system that will collect the state's revenue with the least possible discouragement to the business enterprises that will be the backbone of post-war employment and income.