January 1988

The 1987 White Paper on Tax Reform

Ken Battle

Follow this and additional works at: https://digitalcommons.osgoode.yorku.ca/jlsp

Citation Information
DOI: https://doi.org/10.60082/0829-3929.1161
https://digitalcommons.osgoode.yorku.ca/jlsp/vol3/iss1/4

This Article is brought to you for free and open access by the Journals at Osgoode Digital Commons. It has been accepted for inclusion in Journal of Law and Social Policy by an authorized editor of Osgoode Digital Commons.
Federal Finance Minister Wilson released his eagerly/fearfully awaited White Paper on Tax Reform on June 18, 1987. Representative organizations from business, labor and the social policy community scrambled to meet the August 18 deadline for submissions to the Standing Committee on Finance and Economic Affairs chaired by Don Blenkarn, which reports to Parliament on the tax proposals in November. Meanwhile officials at Finance, with one eye over their shoulders at the Blenkarn Committee and the critics, have been busy drafting the tax legislation and Ways and Means motions which must be introduced in Parliament by the end of the year in order for the first phase of tax reform to take effect in 1988.

This article has three purposes. The first is to offer an account of the White Paper's major themes and proposals. The second is to provide a critique of the tax reform package, focussing on the objective of equity which it purports to pursue. The third is to review reactions to the White Paper from the major interest group sectors.

A QUICK GUIDE TO THE WHITE PAPER ON TAX REFORM

Like the tax system it addresses, the White Paper is big, complicated and technical. The White Papers — there are five in all, plus a bevy of Reader's Digest-like pamphlets which the government freely distributes in shopping centers, supermarkets and other places where the general public gathers to debate tax policy — contain over 500 pages of statistics, graphs, analysis and proposals covering the personal and corporate income tax systems as well as the federal sales tax. It is impossible to cover all of this diverse material here: What follows is a short summary of the objectives of tax reform and the major proposals for change.

* Copyright © 1987 Ken Battle. Ken Battle is the Director of the National Council of Welfare.
THE OBJECTIVES OF TAX REFORM

The White Paper sets five broad objectives for tax reform - fairness, competitiveness, simplicity, consistency and reliability. Each of these goals entails a variety of sub-goals which, in turn, establish linkages among the larger objectives.

Fairness means a number of things — ensuring that upper income Canadians and profitable corporations pay a larger share of income taxes while "imposing little or no burden on those least able to pay"; treating taxpayers in similar economic circumstances more equally than at present ("horizontal equity"); better integrating both the tax and transfer systems and the personal income tax and federal sales tax regimes. The tax system should keep our economy competitive with other countries (especially the U.S.) and encourage entrepreneurial initiative and a higher rate of personal savings so as to help finance investment and spur job creation and economic growth. The tax system should be "simpler to understand and easier to comply with" , while the objective of consistency demands a better fit among the various parts of the overall tax system (personal, corporate and sales taxes) and between the tax system and other public policies such as "bilateral and multilateral trade initiatives" and "the overall structure of our social transfer programs and related tax provisions". ² By reliability, the White Paper means achieving "a more predictable and secure revenue base" through such measures as curbing tax avoidance and achieving "balance" by "reducing excessive dependence on personal income taxes, while increasing reliance on the corporate income tax and the reformed sales tax system".³

The White Paper draws links among several of its stated objectives. For example, both fairness and consistency require closer integration of taxes and transfers. Tax reform should make Canada more competitive and will contribute to economic growth; this, in turn, will help ensure a more reliable and predictable revenue base and will make the tax system consistent with international trade initiatives. Reducing the number of tax preferences — a key feature of the tax reform proposals — is intended to make the system fairer, simpler and more efficient.

This is a tall order and is almost as ambitious — and hard to swallow whole — as your typical throne speech. The White Paper's surprisingly earnest appeal to the principle of equity is especially suspect coming

---

from a Finance Minister whose budgets have added thousands of working poor Canadians to the tax roles; have attempted to cut major social programs by switching from full to partial indexation of benefits (unsuccessfully in the case of the old age pension but successfully in the case of family allowances); have imposed a growing burden of both sales and income taxes on lower- and middle-income taxpayers; and have bestowed generous tax breaks on the well-off.

That equity ranks first among the goals and figures so prominently in the rhetoric of tax reform — “We have an opportunity to build a new tax system that will be fairer and more progressive” — is encouraging nonetheless. However, the Finance Minister immediately qualifies the quest for fairness. His tax reform proposals “are aimed at achieving a balance among these objectives [while] recognizing that trade-offs and choices are inevitable”. Our analysis of the impact of the proposals for change will show that fairness largely loses out to the other objectives.

A FORMULA FOR TAX REFORM

How does the Finance Minister intend to achieve so many good things at the same time? By broadening the tax base and lowering tax rates. This deceptively simple formula underlies most of the White Paper's proposals on how to remake Canada's tax system.

The tax base will be broadened by curtailing individual and corporate tax concessions and by applying a radically transformed sales tax to most if not all goods and services at all stages of their production and distribution. In return for capturing more income and purchases in the tax net, the Finance Minister proposes to lower personal, corporate and sales tax rates. Since the object of tax reform purportedly is not to raise more money overall but rather to keep the system 'revenue neutral', the same amount of money can be collected by taxing more income and consumption at a lower rate.

PERSONAL INCOME TAX

As applied to the personal income tax system, which currently produces the lion's share of federal tax revenues (65 percent), the first part of the tax reform equation converts a wide range of tax exemptions and deductions to credits and eliminates a few others. The second part of the formula reduces the number of tax brackets and lowers the top marginal tax rate.

4 M.H. Wilson, "Tax Reform 1987" (Speech Delivered in the House of Commons, 18 June 1987) at 2.
For the past twenty-five years progressive tax experts, social policy groups and women's organizations have argued that tax exemptions and deductions favor high-income taxpayers and thus subvert the principle of ability to pay which must underly a progressive tax system. A popular prescription has been to eliminate tax exemptions and deductions which serve no defensible public policy purpose and to convert those deemed worthwhile to tax credits or direct spending programs.

The White Paper's major selling point from a social policy perspective is its transformation of personal exemptions and most deductions to tax credits. The idea was prominent in the Carter Commission report, but no Finance Minister has gone as far as Mr. Wilson proposes towards a credit-based personal income tax system.

The basic personal, age, married, equivalent-to-married and children's exemptions will change to flat-rate non-refundable credits. The tax deductions for Canada/Quebec Pension Plan contributions, unemployment insurance premiums, tuition fees and educational expenses, charitable donations and medical expenses, disability and pension income also become credits. The unused portion of the age, disability, pension income, tuition and education credits will be transferable to a taxpayer's spouse, within limits; the total amount of transferable credits will be reduced by 17 percent of the transferring spouse's net income over $6,000. So also can the unused portion of disability, tuition and education credits be transferred to a supporting parent or grandparent.

The employment expense deduction, which permits taxpayers to deduct from taxable income 20 percent of their employment earnings to a maximum of $500, will be eliminated and subsumed in the new basic personal credit. The exemption for dependent students aged 18 and over will be cut, although the White Paper claims that transferable tuition and education credits will compensate for this loss. The $1,000 interest and dividend income deduction also disappears and will not be replaced by a credit. The tax shelter for MURBs (multiple unit residential buildings) will go.

Some exemptions and deductions will remain, though they will be pared down. The Finance Minister retains the controversial lifetime exemption for capital gains, introduced in his 1985 budget; the lifetime limit stays $500,000 for capital gains arising from the sale of farm property and small business shares, but is reduced to $100,000 for other property such as stocks and real estate. Capital gains exemption room will be reduced each year by the amount of net investment losses claimed after 1987. The amount of capital gains remaining after the lifetime exemption which is subject to tax will be raised from its current one-half to two-thirds in 1988 and three-quarters in 1990. The child care expense deduction remains as is until the government announces its long-awaited new child care policy.

The tax deductions for contributions to registered pension plans and RRSPs also emerge unscathed, although the higher limits proposed in the 1985 budget will be phased in more slowly. Business-related tax
deductions for automobile expenses, meals and entertainment expenses, and home office costs will be tightened up. Investors in Canadian films can still write off 100 percent of their costs against income from investments in films, but only 30 percent against other income. In concert with the lowering of corporate income tax rates, the federal/provincial dividend tax credit will be reduced from about one-third to one-quarter (depending on the province) of dividends from taxable Canadian companies and the gross-up of dividends will be cut from one-third to one-quarter of cash dividends.

Lowering tax rates is the other basic element of Ottawa's formula for tax reform. The White Paper reduces the number of tax brackets and associated tax rates from the existing ten to just three (17 percent of taxable income under $27,000, 26 percent from $27,500 to $55,000, and 29 percent on taxable income above $55,000). The highest marginal rate in the federal income tax system will fall from the current 34 percent on taxable income over $63,347 to 29 percent on taxable income over $55,000 in 1988. Counting provincial income tax, which in all provinces but Quebec is calculated as a percentage of federal income tax, the top combined marginal tax rate will drop from an average 53 percent to about 45 percent, the precise figure varying from one province to another.

The White Paper portrays the reduction in tax rates as an essential step in achieving the objectives of competitiveness, simplicity and consistency. It will "encourage productive activity by rewarding economic success" and make Canada more competitive in the world marketplace, especially in relation to the U.S. which, not coincidentally, reformed its tax system last year using the very same 'lower tax rates/broader tax base' formula. The Finance Minister claims that reducing tax rates will "reward success, by letting Canadians keep more of every dollar they earn to spend or save as they see fit". Shifting from ten to three tax brackets apparently will help make the tax system simpler and easier to understand.

CORPORATE INCOME TAX

The Finance Minister began his reform of the corporate income tax system in the 1986 budget, which broadened the tax base by announcing a phased withdrawal of the general investment tax credit by 1989 and eliminating the three percent inventory allowance. The federal corporate tax rates were to be gradually reduced until 1989.

---

6 *Income Tax Reform*, supra, note 1 at 17.

7 Ibid. at 4.
The 1987 White Paper on Tax Reform

The White Paper continues the process of lowering tax rates and cutting tax breaks. The general federal corporate income tax rate will be reduced from its current 36 percent to 28 percent from July 1988 on, which is lower than the 32 percent rate that the 1986 budget planned for 1989 and after. The manufacturing and processing tax rate will be phased down from its current 30 percent to 23 percent by July 1991. The tax rate for small business will drop from 15 percent to 12 percent in 1988. These rate reductions are seen as vital in keeping us competitive with the American corporate income tax system, which has lowered its rate.

The Finance Minister plans to broaden the corporate tax base by 20 percent through further reductions in tax preferences. Parallel to personal tax reform, there will be an increase in the proportion of capital gains that is taxed (from one-half to two-thirds in 1988 and three-quarters in 1990) and the same limits will be placed on deductions for meals and entertainment. He will tighten up the capital cost allowances (CCA) system, a favorite tax concession which allows corporations 'fast write-offs' on depreciation of manufacturing machinery, construction equipment, buildings and resource extraction assets; the CCA rates will be reduced and, starting in 1989, allowances can be claimed only the year in which the particular asset is 'put in use', not (as at present) when acquired. The earned depletion allowance, which permits the deduction from taxable income of certain exploration and development expenses in the mining and petroleum industries, will be phased out. However, the corporate income tax system will continue to provide other incentives to this sector such as accelerated deductions for exploration and development costs and 100 percent write-offs for investors in flow-through shares.

Although the general investment tax credit (ITC) will disappear by 1989, as decreed in the 1986 budget, other special investment tax credits remain; the investment tax credit rates for manufacturing in specified low-growth areas and for the Cape Breton and Atlantic Canada ITCs will be lowered, although the ITCs for high-cost exploration and research and development continue unchanged. To help reduce the number of profitable corporations that currently pay no tax, the amount of investment tax credit that larger taxpayers can claim will be limited to one-half of tax otherwise payable. There will be a new tax on preferred shares to deal with the problem of non-taxpaying companies selling shares which provide corporate buyers with tax-free dividends and individual shareholders with dividend tax credits; this change will not prevent taxpaying companies from continuing to use preferred shares.

The White Paper takes aim at the life insurance and real estate industries for not paying their fair share of corporate income tax. The tax on real estate companies' investment income, which was eliminated in 1978, will be re-imposed; deductions for insurance reserves will be trimmed; and a more accurate definition will be used to distinguish taxable Canadian income from tax-exempt foreign income for multinational
insurers. Real estate and other companies involved in property development must now capitalize carrying costs of vacant and unused land as well as 'soft costs' such as landscaping, utility service connections and applications and representations to government authorities.

To round out this synopsis of the White Paper's many pages of detailed and complex presentation of corporate tax reform proposals, financial institutions will have deductions for doubtful debt reserves cut back and the tax treatment of reserves for all types of financial institutions will be made comparable. Expenses of issuing stocks, bonds and other securities must be written off over several years rather than in the year incurred. There will be a general anti-avoidance rule and some existing anti-avoidance measures will be strengthened. The White Paper proposes new information reporting requirements and a rationalization of and increase in tax penalties and offences. Employers with average monthly remittances of $15,000 or more will be required to remit source deductions four times a month starting in 1990.

SALES TAXES

The Conservative government increased the federal manufacturer's sales tax in November of 1984 and in each of the three budgets it has brought down since 1985. The White Paper announced additional sales tax changes, effective January 1988. The federal sales tax will apply to sales by marketing companies related to the manufacturer and will be extended to telecommunications services, such as telephone and telex services. The sales tax will be shifted from the manufacturers' level to the wholesale level for certain products, including household chemicals, pet litter and games, toys and sporting goods.8

However these are only interim measures. The real action will take place later when the present manufacturers' sales tax is replaced by some form of comprehensive multi-stage sales tax that will extend to the retail level and embrace a wide range of goods and services. The idea is that businesses will charge tax on their sales and claim a credit for sales tax they pay on their purchases; in effect, sales tax will be applied to the value added at each stage in the production and distribution process.

The Finance Minister offers several reasons for revamping the federal sales tax. The existing manufacturers' sales is a creaky and flawed edifice long overdue for reform; the Rowell-Sirois Commission criticized the federal sales tax as far back as 1940, and a succession of inquiries have documented its weaknesses. It covers only about one-third of all goods

8 This section is based on the White Paper entitled Sales Tax Reform (Ottawa: Canada Department of Finance, 18 June 1987).
and services, including tobacco, alcohol, construction materials, furniture, automobiles and automotive parts, gasoline and diesel fuel; all services and imports are exempt as well as a broad range of items such as food, clothing, footwear, prescription drugs, electricity, construction equipment, farming and mining machinery and manufacturing materials. As a result, some sectors are taxed while most are not, and a high tax rate must be levied on those items subject to the federal sales tax. Because the federal sales tax applies to only one part of the final selling price (the manufacturer's), subsequent mark-ups at the wholesale and retail levels result in a wide variety of effective tax rates both within and among industries.

By taxing business inputs such as office supplies and building materials, the federal sales tax increases the cost of doing business in Canada and puts some Canadian producers at a disadvantage vis-à-vis foreign competitors, as well as diverting investment and employment away from our shores. It distorts production and distribution decisions as manufacturers seek to reduce their federal sales tax liability by shifting part of their operation outside of the reach of the tax. One of the federal sales tax's most perverse features is that it favors imports over domestically-produced goods; for example, distribution and marketing costs are not included in the tax base for imports whereas they usually are for Canadian-made products — a factor that reduces our manufacturing sector's ability to compete in the world market. The federal sales tax is enormously complex — there are over 22,000 special provisions and administrative interpretations on its application — and thus imposes high compliance and administrative costs.

In the end, of course, people pay tax, not businesses. Canadian consumers pay the federal sales tax even though they have probably never heard of it. Though hidden, the federal sales tax increases the price not only of goods to which it applies directly, but also many others as a result of its impact on business inputs. Wholesale and retail mark-ups are typically applied to prices that already include the federal sales tax. The White Paper argues that consumers pay higher taxes than if the federal sales tax were collected at the retail level. Low-income families and individuals are hit hardest by a consumption tax such as the federal sales tax, despite the fact that necessities are exempt and the federal government now offers partial relief in the form of the refundable sales tax credit instituted in 1986.

Naturally the new federal sales tax will attempt to redress these failings. Following the formula for tax reform, it will tax a broader base of goods and services at a lower rate. The new sales tax will tax a uniform percentage of the final price of products to the consumer. It will treat all businesses equally and, by providing credits for sales tax already paid on business purchases, will remedy the current situation in which business inputs are taxed and passed down to the consumer as a hidden tax. It will apply a uniform tax on both imports and domestically-produced
goods. It will strengthen the competitive position of Canadian exporters by not applying to export sales. To protect lower-income consumers, the new sales tax will be accompanied by a much enlarged refundable sales tax credit. In the end, claims the Finance Minister, both the producer and consumer will benefit from the new federal sales tax.

The White Paper does not recommend a specific design for the new sales tax in the way that it provides detailed proposals for changing the personal and corporate income tax systems. The favored option would appear to be a national sales tax, made up of a uniform federal rate and a varying provincial rate along with a common tax base. The federal and provincial taxes would be calculated separately on sales invoices. A national sales tax would replace both the federal manufacturers' sales tax and existing provincial retail sales taxes (all provinces except Alberta levy sales taxes). Such a combined sales tax system would be administratively efficient, would impose lower compliance costs; and would fully remove the tax on business inputs at both levels of government. Federal officials have been discussing such an approach with the provinces.

The White Paper suggests two federal-only options. One is a federal 'goods and services tax' which would operate alongside provincial sales taxes. Such a tax would not require a separate tax calculation on each invoice; businesses would apply the tax rate to their total taxable sales and subtract from this amount an input tax credit equal to the total taxed purchases multiplied by the tax rate. Retailers would include the federal sales tax in their price and the provincial tax would be applied on that price at the time of sale. There would be one tax rate applied to most or all goods and services sold in Canada.

The other option is a federal 'value-added tax' (VAT) based on the European model, with exemptions for certain items (e.g., food). This type of sales tax requires invoices. Unlike the other two approaches, the tax rate would have to be higher in order to collect the same revenue from a narrower tax base. The problem with a VAT is that it brings higher compliance and administrative costs, especially if there are many exemptions.

All three options would include a larger refundable sales tax credit to help low- and middle-income Canadians. The national sales tax approach could provide for a single joint refundable sales tax credit.

**HOW IT IS ALL SUPPOSED TO FIT TOGETHER**

The Finance Minister has billed his tax proposals as a well-integrated, comprehensive plan for reforming the entire tax system. 'Balance' is a watchword of the White Paper. The tax mix supposedly will be better balanced, taking less from the personal income tax system and more from corporate and sales taxes. Broadening the tax base will be balanced by
lowering tax rates. The tax system will fit better with other economic and social policies.

All of this cannot be accomplished in one go. Tax reform will proceed in two stages. The first phase begins in 1988 and involves changes to the personal and corporate income tax systems and the transitional modifications to the existing federal sales tax. The second stage, to come at an unspecified date, will bring in the multi-stage sales tax system. Once the new sales tax is implemented, the Finance Minister has promised to lift surtaxes in the personal and corporate income tax systems and to provide further personal income tax cuts to help offset the burden of higher sales taxes on middle-income Canadians.

A CRITIQUE OF TAX REFORM

The White Paper is so broad-ranging and variegated in its arguments and proposals that it would be impossible to do justice to the entire reform package in the course of one article. What follows is a critique of the White Paper's performance in achieving the objective of fairness that figures so prominently in its rhetoric. The analysis will deal mainly with the personal income tax and sales tax systems, though some brief comments will be made on the distributional effects of the corporate income tax.

Some of the data used in this assessment of the tax proposals comes from the White Paper itself, in some instances recalculated by the author. Most of the quantitative analysis of the personal income tax measures was done with a tax/transfer microsimulation model developed by the author at the National Council of Welfare. Data on the federal sales tax is taken from a study conducted by Dr. Richard Shillington, a statistician and computer analyst. For the sake of readability, figures are used sparingly to substantiate the arguments; a more detailed statistical presentation of the impact of tax reform on various family types and single taxpayers at different income levels is presented in *Testing Tax Reform*, the National Council of Welfare's brief to the Standing Committee on Finance and Economic Affairs.9

THE BURDEN OF RECENT BUDGETS

The White Paper must be viewed in the context of tax changes over the past several years. Both personal income taxes and sales taxes have risen significantly since 1984 and many working poor Canadians are pay-

---

ing income tax for the first time as Revenue Canada has dipped its tax net deeper below the poverty line.\(^\text{10}\)

Three changes account for the rising income tax burden — the elimination of the federal tax reduction, the imposition of surtaxes and the partial de-indexation of the income tax system. The abandonment of indexation has the most serious long-term consequences.

In line with the federal government's policy of financial restraint, Finance Minister Lalonde's April 1983 budget cut the federal tax reduction from a maximum of $200 per single taxfiler and $400 per couple to $100 per individual and $200 per couple for 1985 and to $50 per person and $100 per couple for the 1986 and subsequent taxation years. He also limited to federal tax reduction to low and middle-income taxpayers starting in 1984; the amount of the reduction was diminished by 10 percent of basic federal tax over $6,000. His successor, the Honourable Michael Wilson, abolished the federal tax reduction in his 1985 budget, effective the 1986 taxation year.

The eligible taxpayer subtracted the federal tax reduction from basic federal tax (in fact it was built into the tax tables that most taxfilers use to calculate their income tax). The reduction and subsequent elimination of this form of tax relief means that some low-income and all middle-income taxpayers pay more federal income tax, while others have entered taxpaying territory for the first time.

The May 1985 budget imposed a temporary surtax on upper-income taxpayers, calculated as five percent of basic federal tax between $6,000 and $15,000 and ten percent on basic federal tax over $15,000. The February 1986 budget added an 'individual surtax' of three percent of basic federal tax. The high-income surtax lasted from July 1985 to December 1986. The individual surtax, which hits all taxpayers regardless of income, came into effect on Canada Day, 1986, and will be lifted when the new federal sales tax sees the light of day, whenever that might be.

The May 1985 budget's biggest tax grab was to change the personal income tax system's indexation formula. Since 1973, tax brackets and personal exemptions have been fully indexed to the cost of living, thereby protecting taxpayers from tax increases brought on by inflation — in retrospect a very important safeguard, given the double-digit rate of inflation in the latter part of the 'seventies. The income tax system is now indexed only by the amount of inflation over three percent, which guarantees hidden but very real tax increases for taxpayers and substantial revenue gains each year for both the federal and provincial treasuries.

\(^{10}\) For a complete analysis, see the National Council of Welfare's report, *The Impact of the 1985 and 1986 Budgets on Disposable Income* (Ottawa: April 1986).
Unfortunately partial indexation is a regressive tax change; working poor taxpayers are hardest hit in percentage terms while the rich see a much smaller proportionate tax hike.

The Finance Minister also has enacted a series of increases in federal sales and excise taxes and duties since the fall of 1984. Tax rates have been notched up and the tax base broadened to include some new goods and services.

These tax changes have had a substantial cumulative impact on Canadians in all income ranges, although in percentage terms lower-income families and individuals have borne the largest tax increase. For instance, the federal/provincial income tax bill for a two-earner couple with two children and family earnings of $25,000 rises from $1,300 in 1984 to an estimated $2,160 in 1988 (after income tax reform) and its federal sales and excise taxes and duties from an estimated $1,780 to $2,115 during the same period. The family’s total tax burden was $3,080 in 1984 and will be $4,275 in 1988 — a $1,195 or 38.7 percent tax hike in just four years. While the total tax bill for a $100,000 family of four is much higher — $33,425 in 1984 and $37,170 in 1988 — since it pays more income taxes and spends more, in percentage terms its tax burden went up by only 11.2 percent, which is a marked contrast to the lower-income family’s 38.7 percent tax hike.11

PERSONAL INCOME TAX REFORM

The White Paper fails to deliver on its promise of creating a fairer, more progressive income tax system. Its own figures on the distributional impact of the tax proposals furnish striking evidence in this regard.

Who Gets What From Tax Reform

Most taxpayers — 8.9 million out of a total of 10.7 million taxpaying households — will pay less tax after tax reform in 1988. Among these ‘winners’, households with incomes below $15,000 will receive an average federal/provincial income tax cut of $140, which amounts to a sizeable 19.9 percent reduction in taxes though only 1.4 percent when measured as a percentage of their income. Middle-income households save in the $400 to $500 range. The real shocker is that winning households with incomes above $100,000 (even in this rarified group there will be more

Figure A

Figure B
than twice as many winners as losers from tax reform) will enjoy an average tax savings of $4,365, which comes to 2.6 percent of their income.\(^{12}\) Contrast these figures to the $140 tax reduction amounting to just 1.4 percent of income for those in the sub-$15,000 low-income group.

There are 2.3 million taxpaying households in the under-$15,000 group who will pay less income tax after tax reform in 1988; they represent 26.2 percent of all winning households but get only 7.7 percent of the winnings. By contrast, households in the $100,000-plus club represent only 2.0 percent of all winning households (for the simple reason that there are so few households with incomes this high) but will enjoy fully 18.2 percent of the tax savings.

Even these figures overstate the benefits of income tax reform. They look only at the impact of tax reform in its first year, 1988. In the context of the recent past and future, the White Paper proposals look even more feeble. Tax reform will provide at best a modest tax cut in 1988 which fails to make up for the tax increases since 1984 and is eroded after 1988 by the impact of inflation on a partially-indexed tax system.

Figure A traces federal/provincial income taxes from 1984 through 1991 for a single taxpayer with earnings equal to the poverty line for a metropolitan center (an estimated $11,079 in 1987). All figures have been converted to constant 1987 dollars to show real trends. The tax bill rises steeply from $1,007 in 1984 to $1,354 in 1987 as a result of the changes instituted by the 1985 budget and explained earlier. Tax reform gives the taxpayer a small ($45) tax cut. Because the White Paper failed to re-index the income tax system, taxes climb steadily after 1988. By 1991, federal and provincial income taxes for this low-income taxpayer come to $1,427 or a hefty 12.9 percent of income (the ‘average tax rate’). Taxes in 1991 are $420 more than in 1984 or 41.7 percent higher.

The trend is similar for families and individuals at different income levels. Generally tax reform provides only partial respite from the upward march of taxes in the ‘eighties.

The White Paper claims it will remove 850,000 low-income taxpayers from the tax roles because the shift from the basic personal exemption to a credit will raise the income tax threshold. Unfortunately partial indexation and the removal of the federal tax reduction have added over a million working poor Canadians to the tax roles over the past few years. Moreover, partial indexation will push the tax threshold further and further below the poverty line after 1988. Many low-income families and individuals will continue to pay substantial amounts of income tax after tax reform. A single parent struggling to raise a child on wages of $15,000 in 1988 will pay $505 in federal/provincial income taxes after tax reform, net of her child tax credit and sales tax credits which reduce basic federal tax.

\(^{12}\) *Income Tax Reform, supra,* note 1 at 36.
The Conversion To Credits

Converting personal exemptions and most deductions to credits benefits lower-income taxpayers, as predicted. The married exemption, which would have been $3,740 in 1988, would reduce the federal/provincial income taxes of a couple with two children and earnings of $20,000 by $985. However, a family earning $75,000 would enjoy a tax savings of $1,681 because it is in a higher marginal tax bracket. After tax reform, both families will receive the same married credit of $1,318 in combined federal/provincial taxes. The same pattern holds for the other credits, which will be worth more in relative terms to lower-income taxpayers and less to the rich.

While the new credits will help Canadians whose incomes are below the poverty line but still high enough to incur income tax (e.g., for a family of four, in the $17,000 to $22,500 range in 1987), they will not assist those too poor to pay tax; most of these people rely on provincial social assistance for all or the large part of their income. In other words, tax reform will benefit the working poor but not the welfare poor. The reason is the non-refundable nature of the credits, which reduce tax payable; without tax liability, the credit does not apply. The child tax credit and sales tax credit, by contrast, are refundable and thus are paid to the very poor even though they are not subject to tax.

Why not simply make the new credits refundable? Cost is one obvious constraint. Since the tax reform exercise is supposed to be revenue neutral, all things being equal the credits would have to be lower in value if they were paid to everyone. Of course all things are rarely equal and it can be argued that tax reform could have financed refundable credits if, for example, the top marginal tax rate had not been lowered. Another approach would have been to change the personal exemptions into diminishing refundable credits, along the lines of the existing child and sales tax credits which phase out above a specified income threshold.

Politics, not cost, is the constraint here; higher-income taxpayers would pay higher taxes if they lost their exemptions and deductions altogether and doubtless would make known their displeasure to the government. However it is noteworthy that the American tax reform did manage to phase out for affluent taxpayers certain tax concessions such as the personal exemption and child-rearing credit.

The Achilles' heel of tax reform is its failure to re-index tax brackets and credits. The new credits will lose three percent in value each year because the White Paper upholds the 1985 budget's shift from full to partial indexation (i.e., by the amount that inflation exceeds three percent).

While the conversion to credits is a major reform in favor of progressivity, it is nowhere near complete. As mentioned earlier, several exemp-
tions and deductions remain, though the White Paper trims a few of them. These remaining tax breaks dilute the progressivity of the tax reform package.

Foremost among them is the lifetime capital gains exemption which, though reduced from $500,000 to $100,000 for capital gains other than small business shares and farm property (which retain the half-million limit), will continue to favor well-off taxpayers. Our analysis of the most recent taxation data (for 1984) indicates that taxfilers with incomes over $250,000—a tiny group which represents under one percent of all taxfilers—took home one-quarter of the tax savings from the non-taxation of half of capital gains. There is no technical reason why the capital gains exemption could not have been converted to a credit; the decision to retain it was clearly political. Some would go further and abolish the capital gains exemption outright (as the Americans did last year) and tax the full amount. On the positive side, the White Paper will raise the proportion of capital gains subject to tax (after the lifetime exemption has been applied) to three-quarters by 1990.

The tax deductions for private pension plan and RRSP contributions, increased by the 1985 budget, remain in place although the higher limits will be phased in more slowly. Both of these tax breaks are popular among middle-income Canadians, but as deductions they pay much larger benefits to the well-off. The average federal/provincial tax savings for RRSP contributors in the 1984 taxation year was $569 for taxpayers with incomes between $30,000 and $40,000 and $1,300 for those over $50,000. The White Paper failed to take the advice of social policy groups and the 1983 Parliamentary Task Force on Pension Reform to turn these deductions into credits.

Marginal Tax Rates

The key problem with the personal income tax package lies in the 'balance' so prized by the authors of the White Paper. The conversion from exemptions and deductions to credits will be balanced by a reduction in marginal tax rates. However the effect of this second part of the tax reform equation is the opposite: Lowering the top marginal tax rate will be worth thousands of dollars in tax savings to most affluent Canadians, who will gain far more from a lower marginal tax rate than they will lose in the conversion of exemptions and deductions to credits.

The White Paper accepts as an article of faith that tax rates must be reduced in the interests of economic efficiency. Cutting the top tax rate supposedly will "provide an increased incentive to earn additional income and thereby encourage investment and business activity". It is

\[13 \text{ Ibid. at 69.}\]
seen as necessary to keep our income tax system in line with those in the U.S. and other countries. It will help simplify the tax system and make it easier to understand. Upper-income taxpayers will have less incentive to try and evade taxes.

None of these arguments is convincing. What little empirical evidence is available suggests that low tax rates have little impact on work incentives. Common sense would come to the same conclusion. Will the well-off put in longer hours and work harder because they will pay less tax on their extra earnings? The question is academic for most Canadians, who have little control over their hours of work and often count themselves lucky just to have a job. Will a minimum wage worker put in for longer hours or take on another job because her take-home pay is marginally better thanks to tax reform?

The notion that high-flying executives, entrepreneurs and professionals will wing their way south permanently if our top tax rate diverges too far from the U.S.'s is equally for the birds. For one thing, after tax reform in both countries the effective top marginal rates are not far apart. More to the point, the average tax rate for affluent taxpayers (i.e., the proportion of total income taken up by taxes) is similar north and south of the border. Canadians also get more for their taxes in the way of superior social benefits and health insurance. Besides, there is more to life than taxes and it seems far-fetched to think that lower marginal tax rates will have a significant impact on Canadian's decision about work and place of residence.

The appeal to the goal of simplification is perhaps the most laughable of the justifications for reducing tax rates. It is hard to take seriously the claim that moving from ten to three tax brackets will make the tax system easier to understand. Most taxpayers use the tax tables at the end of the tax guide anyway. Certainly the conversion of exemptions and deductions to credits will not make for a simpler system: except for the fact that the interest income deduction, employment expense deduction and exemption for dependants over 18 years of age are gone, all the other tax breaks remain. The only difference is that as credits, they will be deducted from base federal tax rather than from taxable income. The tax form will be no simpler than before tax reform.


15 Adding in the contribution rate of social security, the American top federal/state tax rate comes to about 44 percent, compared with about 45 percent in Canada. See Leonard Shifrin, “Smoke and Mirrors on Tax Reform” London Free Press (13 October 1986).
The argument that lower tax rates will curb the rate of tax evasion is equally without merit. It has been argued that high tax rates can increase the costs of evasion. Fines are levied in proportion to the amount of unpaid tax, and the latter will be higher in a system with higher tax rates. The tax collector will have more incentive to chase evaders, since there will be more unpaid tax and the associated fines. Besides, tax evasion is found among taxpayers in low tax brackets and in countries with low marginal rates.\(^\text{15}\)

The final nail in the coffin comes from the White Paper itself, which begins bravely with the assertion that "higher-income individuals...must carry a larger share of the income tax burden than they currently do".\(^\text{17}\) Yet after tax reform, the share of federal income taxes paid by individuals with incomes over $100,000 in 1988 will creep from 12.1 percent to 12.4 percent according to Finance Department estimates — hardly a significant redistribution of the tax burden.\(^\text{18}\) Most upper-income taxpayers will reap tax savings in the thousands of dollars thanks largely to the drop in the top marginal tax rate.

**Horizontal Equity: The Case of Families With Children**

The White Paper continues the process of squeezing child benefits initiated so successfully by the 1985 budget. The 1985 budget effected the following changes: family allowances were partially indexed as of 1986; the refundable child tax credit is being gradually increased from $384 per child in 1985 to $524 in 1988, after which it will be partially indexed; the turnover point for the refundable child tax credit (i.e., the next family income point above which the credit is reduced by five percent of additional income) was lowered from $26,330 to $23,500 for 1986 and partially indexed thereafter; the children's tax exemption was to be gradually lowered from $710 in 1986 to $470 in 1988 and then set at the level of the family allowance from 1989 on. The White Paper eliminated the children's tax exemption and replaced it with a $65 partially-indexed non-refundable credit.

The overall impact of these changes is to both target and reduce federal benefits to families with children. Families at all income levels will lose family allowances because of partial de-indexation. Most families, including some with incomes below the poverty line, will lose on the conversion of the children's exemption to a non-refundable credit because the level of the new credit ($65) was set so low — lower, in fact, than any of the other conversions from exemption or deduction to credit. (The

\(^{16}\) Brooks, *supra*, note 14 at 12.

\(^{17}\) *Income Tax Reform*, *supra*, note 1 at 3.

child credit is only 14 percent of the exemption, compared to 17 percent for the deductions-to-credits, 24 percent for the basic personal, 23 percent for the married and married-equivalent credits, 21 percent for the age credit and 19 percent for the disability credit). Middle-income families will suffer significant cuts to their refundable child tax credit because tax reform will increase their net income; the employment expense deduction and deductions for C/QPP contributions and unemployment insurance premiums are gone, resulting in higher net income and thus lower child tax credits.

The long-term loss in child benefits is considerable. Figure B shows total federal child benefits for two-earner couples at different income levels in 1984 and 1991. Child benefits are the sum of net (after-tax) family allowances, the refundable child tax credit and federal/provincial tax savings from the old children's exemption (in 1984) and the new non-refundable credit (in 1991).

The dotted line shows net child benefits in 1984, before the various changes brought about by the Conservative government. The solid line illustrates child benefits after the changes instituted by the 1985 budget and 1987 White Paper. The poorest family, with no earnings (likely to live on welfare), is no better off in 1991 than in 1984 because what it gains in refundable child tax credits it loses in family allowances. All other families with children, including the working poor, are worse off in 1991.

Middle-income parents will be hardest hit. Total child benefits for a two-earner couple with two children and earnings of $45,000 (about average) will plummet from $1,504 in 1984 to $579 in 1991 — a heavy loss of 62 percent.

As a result, childless couples fare much better from tax reform than families with children. A two-earner couple with no children and earnings of $45,000 in 1988 will pay $645 less in income taxes after tax reform, which amounts to a 7 percent tax cut. A two-earner couple raising two children on the same $45,000 salary saves $276 in income taxes or only 3 percent. Before Tax reform, income taxes for the family with children amount to 88 percent of taxes paid by the childless couple; after tax reform, the figure increases substantially to 92 percent.

Since the income tax system began in 1917, it has recognized the extra costs of raising children in the form of the children's exemption. Yet the changes made over the past few years result in the absurd situation where a middle-income family with children pays more income tax than a childless couple with no children to support. All families with children will receive less financial recognition of their child-rearing responsibilities. This is a strange way to realize the principle of horizontal equity that the White Paper lists as one of its criteria of fairness.
Investment Income

Some critics argue that the tax system unfairly favors investment income over income from employment. The White Paper responds in part to this criticism, but in a way that even progressive tax reformers might question.

Because the White Paper abolishes the $1,000 interest income deduction and does not replace it with a credit, taxpayers with some income from savings and investments will not do as well from tax reform as taxpayers with little or no income from this source. This tax change will affect even many Canadians with modest incomes, who typically earn some interest from savings.

A single taxpayer earning $35,000 in 1988 will enjoy a $753 income tax cut if none of that income comes from investments, but only $556 if interest totals $500 and just $358 if $1,000 of income is in the form of interest.

By eliminating the $1,000 interest income deduction, the Finance Minister does away with a tax break that helps the little guy and average Canadian. Very wealthy taxpayers, with many thousands in interest income, will hardly notice the loss of a $1,000 tax deduction. Yet the White Paper retains the investment-related tax concessions that really benefit the wealthy — the dividend tax credit and the favorable tax treatment of capital gains.

CORPORATE TAX REFORM

The White Paper continues the Finance Minister's policy of broadening the tax base (mainly by curbing corporate income tax concessions) and lowering tax rates. In part this is being done to raise more taxes from corporations, whose percentage of federal tax revenues has fallen considerably in recent years (from around 23 percent in the early 'seventies to 16 percent now). It also follows from long-standing criticisms that tax preferences in the form of special deductions and write-offs distort investments, impair efficiency, increase corporate concentration and foreign ownership, and are generally cost-ineffective and therefore a waste of taxpayers' money. Although (as we shall see later) business interest groups have objected to cuts affecting them, most economists and certainly many ordinary Canadians will applaud the White Paper's tightening and trimming of corporate tax expenditures.

Unlike the changes to the personal income system, which will reduce federal tax revenues from this source by a total of $11 billion from 1988 through 1992, the corporate tax proposals will add $5 billion to federal coffers over the same period. However Ottawa still will collect much more income tax from individuals — a projected $57 billion or 62.9 percent of tax revenues by 1991-92 — than from corporations, which will contribute $15.5 billion or 17.2 percent of the federal tax paid in 1991-92.
Corporate tax reform will only marginally increase the proportion of federal taxes paid by companies, from 15.6 percent in 1987-88 to 17.2 percent in 1991-92.\(^\text{19}\)

The long-term trend is revealing. Federal income tax revenues will rise from $23.6 billion in 1971 to a projected $47.0 billion in 1991, which represents a hefty 100 percent increase; federal sales tax is projected to increase by 72 percent, from $8.6 billion in 1971 to $14.9 billion in 1991; corporate income taxes will go from $7.9 billion in 1971 to $12.9 billion in 1991, for a 65 percent increase. (These figures have been converted to constant 1987 dollars by the author).

The decision to reduce corporate tax rates is open to some of the same criticisms as the lowering of personal tax rates. The argument that Canada must lower its corporate tax rates to keep us competitive with the U.S. is easy to counter. In his brief to the Blenkarn Committee, Professor Neil Brooks of Osgoode Hall Law School points out that "effective corporate tax rates in Canada have always been about 10 percentage points below those in the United States".\(^\text{20}\) The spread likely will become even higher as a result of the American tax reform, which will increase the tax burden on the U.S. corporate sector by $120 billion over the next five years.

Lowering Canadian corporate income tax rates will eat into the revenue gains from tax reform. The base broadening measures would add a total of $12.2 billion in corporate taxes to the federal coffers from 1988 to 1992, but lowering tax rates will cost $7.2 billion, for a net increase of $5 billion.

The distributional consequences of these changes is another matter. Tax analysts contend that it is people, not corporations, who pay income tax. Corporations treat taxes as part of the cost of doing business and pass these costs on down to employees in the form of lower wage settlements, shareholders in the form of smaller dividends and, most important, consumers in the form of higher prices. To the extent that the corporate income tax is ultimately paid by individuals, it likely has an overall regressive impact. Shifting more of the tax take to corporations, then, probably will not ease the tax burden on Canadians.

**SALES TAX REFORM**

Tax reform will add $5 billion in corporate income tax revenues to the federal treasury between 1988 and 1992 but Ottawa will collect $10.3 bil-

---

\(^\text{19}\) *Economic and Fiscal Outlook* (Ottawa: Canada Department of Finance, 18 June 1987) at 47-48.

\(^\text{20}\) Brooks, *supra*, note 14 at 56.
lion less in personal income taxes, for a total net loss of $5 billion over five years. The Finance Minister is looking to the federal sales tax to make up the revenue shortfall.

As described earlier, the existing federal manufacturers' sales tax is being cranked up once again to help finance the personal income tax cuts planned for the first stage of tax reform in 1988. When the expanded multi-stage sales tax scheme comes into being in the second stage, it will have to cover additional personal income tax cuts, the elimination of surtaxes in the personal and corporate income tax systems, and the cost of an expanded refundable sales tax credit. It is safe to say, then, that the Canadian consumer can look forward to higher sales taxes in future to balance income tax cuts.

What will the expanded sales tax do to the distributional consequences of tax reform? The answer to this question hinges in large part on the design of the enhanced refundable sales tax credit that the government has promised to mitigate the effects of the new sales tax. In the absence of specific proposals, some general requirements for an effective sales tax credit will be suggested here.

It is a commonplace of tax analysis that consumption taxes such as the federal sales tax are regressive. In absolute terms, upper-income consumers pay more sales tax because they tend to spend more than lower-income consumers. In percentage terms, however, sales taxes hit the poor hardest because their consumption takes up a larger share of their limited income. For instance, a single person under age 65 earning $15,000 in 1988 will pay an estimated $1,300 in federal sales and excise taxes under the existing system, whereas the tax burden will amount to $2,972 for someone earning $70,000. The affluent individual pays over twice as much consumption tax ($2,972 versus $1,311) but this amounts to only 4.2 percent of his or her earnings compared to 8.7 percent for the consumer living on just $15,000.

The 1986 budget introduced a modest refundable sales tax credit to protect low-income Canadians from the impact of increases in the federal sales tax. The White Paper raised the sales tax credit from $50 per adult and $25 per child to $70 per adult and $35 per child in recognition of further increases in the federal manufacturers' sales tax.

The White Paper also lifted the turnover point (the income level above which the sales tax credit is reduced by five cents for every dollar of additional income) from $15,000 to $16,000. In fact the latter is not a real increase at all because the sales tax credit, like the refundable child tax credit, is based on net family income (gross income less the tax deductions for employment expenses, Canada/Quebec Pension Plan contributions and unemployment insurance premiums). Since tax reform will do away with the employment expense deduction and will convert the other two deductions to credits, the working poor will have higher net incomes and therefore could lose benefits. By raising the turnover point a
thousand dollars and increasing the payment, the White Paper in effect leaves sales tax credit recipients in the same position after the first stage of tax reform as they were before.

The refundable sales tax credit is a welcome innovation, but it is nowhere near generous enough to offset the full weight of the existing federal sales tax, let alone a probable heavier burden in future. To effectively relieve the current sales tax burden on low-income consumers would require a sales tax credit in the order of $400 per adult and $200 per child. Benefits would have to be even higher under an expanded sales tax system.

The existing sales tax credit disappears below the poverty line for families with children, so at a minimum the enhanced credit must fully protect all Canadians up to the poverty line (in 1987, $22,532 for a family of four living in a large city like Vancouver, Toronto or Montreal). The credit and its turnover point must be fully indexed to the cost of living, and the credit must be increased whenever the sales tax is raised; the latter is a distinct possibility, given the powerful revenue-generating capacity of a comprehensive sales tax system. The sales tax credit must be delivered in advance of expenditures on a frequent basis — quarterly at the least, preferably more often — in order to help low-income Canadians cope with the higher sales tax. Efforts will be required to ensure that everyone eligible for the credit actually gets it, which could prove a formidable task in the case of people with no fixed address and those who are functionally illiterate. The federal and provincial governments must agree that welfare recipients will not have part of the expanded sales tax credit counted as income for purposes of determining their social assistance benefits or taken into account when the provinces set their welfare rates.

Even if the enhanced sales tax credit adequately protects the poor, concerns must remain about the sales tax burden on middle-income Canadians, whose income and federal sales taxes have mounted substantially since 1984. They could well end up bearing the heaviest weight from an expanded sales tax regime.

One solution to this problem would be to simply extend the enlarged sales tax credit to moderate-income families (those in the $25,000 to $40,000 range) and individuals. However this approach would be very expensive because there are so many Canadians in this part of the income spectrum. Extending the sales tax credit higher up the income ladder would cut into the revenues the government counts on getting from a comprehensive sales tax to pay for the cuts in personal income tax. The compromise might be a smaller sales tax credit distributed to middle- as well as low-income consumers, but then poor people would not be fully shielded from the new sales tax.

The debate on sales tax so far has centered on the issue of taxing food. The White Paper contends that exempting food from the expanded sales
tax would benefit affluent consumers since they spend more on food. If
food were excluded from the sales tax base, the government would have
to raise the tax rate on all other goods and services and would provide a
lower refundable sales tax credit. It would be cheaper to run a compre-
hensive sales tax offering a generous refundable sales tax credit than a
scheme that exempted food and gave a smaller sales tax credit. It is con-
ceivable that lower-income Canadians would fare no worse off under a
broadly-based sales tax system than under one that exempted food, pro-
vided that there was a generous sales tax credit which met the various
conditions set out above.

The Opposition parties have pounced on the food tax and some of the rul-
ing Conservatives are worried about a public backlash to the idea.
Given the political volatility of the issue, it is quite possible that the
new sales tax scheme, when and if it appears, will exempt food.

The White Paper’s commitment to a revamped sales tax system poses
something of a dilemma for social policy advocates. On the one hand, it
is difficult to endorse the idea of expanding a consumption tax, because it
is inherently regressive. Adding in a larger refundable sales tax credit
simply shifts the regressivity upwards to modest-income Canadians. On
the other hand, a boosted sales tax credit is attractive from the point of
view of income security reform.

A greatly expanded sales tax credit along the lines sketched above, par-
ticularly if it included a provincial component, could move Canada a big
step forward toward the goal of a guaranteed income delivered through
a negative income tax. If the improved sales tax credit were accompa-
nied by a low income tax credit to remove the burden of income taxes, the
working poor would enjoy a welcome income supplement. At the very
least, a large sales tax credit would provide badly-needed relief that
lower-income families and individuals do not now receive (the existing
sales tax credit offsets only a small part of the federal sales tax burden).

While most people would probably agree that the existing federal sales
tax needs fixing and that a boosted sales tax credit is a step forward, it is
quite another thing to swallow the White Paper’s line that Canada
should reduce its “excessive dependence on personal income taxes, while
increasing reliance on the corporate income tax and a reformed sales tax
system”.

From an equity point of view, shifting the tax mix from income to
consumption is objectionable.

The personal income tax is the only progressive element in the overall
tax system. Sales taxes are regressive, although their regressivity can
be lessened by exempting certain items (e.g., necessities such as food)
and/or providing refundable credits for lower-income consumers.
Corporate taxes, to the extent they are passed on to the consumer in the

---

21 Income Tax Reform, supra, note 1 at 5.
form of higher prices and to employees in the form of lower wages, are regressive as well.

Even if the poor can be adequately protected by a strong sales tax credit, shifting the balance of the overall tax system from personal income tax to consumption tax will hurt Canadians with modest and average incomes more than the well-off. At best the middle class will be no worse off than at present since the Finance Minister has promised them further income tax cuts to ease the pain of higher sales taxes. They will probably be worse off in the long run as inflation imposes hidden tax increases on the partially-indexed income tax system. Most upper-income Canadians, by contrast, will enjoy substantial income tax cuts and can afford to pay a bigger sales tax.

The federal sales tax can be reformed without raising the overall revenue taken from this source and getting less from personal income tax. Canada already obtains about 35 percent of its revenue from consumption taxes, which is more than most countries (the OECD average is 29 percent, the U.S. only 17 percent). What is really needed is a more progressive personal income tax system, including a tax on wealth.

REACTIONS TO THEWHITE PAPER

A number of interest groups have appeared before the Standing Committee on Finance and Economic Affairs to air their opinions on the White Paper on Tax Reform. The following discussion is based on a reading of briefs written by a variety of business, labor, women's and social policy organizations. The intent is to convey the gist of their arguments rather than comment on their merit.

BUSINESS

Business representatives support the tax reform package in general but are typically critical of proposals which affect them directly. This response is hardly surprising. It is always easier to endorse principles and objectives than to accept specific changes that will affect lucrative tax breaks.

A common refrain in the business sector briefs is to begin by endorsing the formula of base broadening and rate reductions. Making the tax system fairer as among industrial sectors, more competitive and simpler are objectives that typically meet with enthusiastic support. The private sector agrees with the White Paper's intention of shifting the tax mix from income to consumption, but is concerned about the vague timetable for sales tax reform and wants the Finance Minister to proceed more quickly with the second phase of tax reform rather than imposing interim increases in the existing manufacturers' sales tax which is strongly disliked. However, tax reform cannot stand its own: Ottawa
and the provinces must take more decisive action in curbing the growth of government spending or tax reform won't have much of a chance.

Naturally the main target of criticism is the White Paper's attack on corporate tax concessions, although proposed changes to the tax treatment of capital gains and business related expenses in the personal income tax system as well as increases to the existing federal sales tax find little favor. We turn first to the corporate income tax proposals.

Corporate Income Tax

Albeit partially balanced by reductions in tax rates, the tightening of such measures as capital cost allowances, research and development incentives and capital gains is decried as impairing the competitive position of Canadian enterprises in the increasingly important world marketplace. Business groups do not go along with the White Paper's plan to increase the tax take from the corporate sector. The Business Council on National Issues, a prominent interest group which bills itself as "the senior voice of business in Canada", characterized the business stance on tax reform: "These changes would result in a net increase in the tax burden borne by the corporate sector, which in turn has negative implications for investment, production and job creation".22

The Canadian Manufacturers' Association assails the White Paper's proposed reductions in capital cost allowances, described earlier in this paper. The new rules would effectively extend the period for write-off of depreciation on manufacturing and processing equipment from the current three years to as many as 15 years or even longer. As a result, alleges the CMA, Canadian manufacturers will face cash-flow problems and will have a harder time replacing obsolete equipment. These measures will discriminate against capital-intensive enterprises and will reduce the ability of Canadian manufacturers to compete with the Americans.23

The Information Technology Association of Canada and four other high-tech business associations joined forces to object vociferously to the proposals to limit application of the research and development investment tax credit to a maximum of one-half of tax otherwise payable and to eliminate the investment tax credit for research buildings and the one-year write-off provisions for their construction. The unfortunate impact of these changes would be to penalize the R and D initiatives of high-tech firms whose leadership is so crucial to Canada's economic future. These tax reforms are bad public policy at a time when Canada's R and D


23 Canadian Manufacturers' Association, Submission on Tax Reform (Toronto: September 1987) at 22-23.
expenditures have stagnated at just 1.35 percent of GNP and lag behind competitors such as Japan and the U.S., which devote about 3 percent of their GNP to high-tech development.\footnote{Information Technology Association of Canada (et. al.), Submission on the White Paper on Tax Reform 1987 (Willowdale: August 1987) at 4.}

The Urban Development Institute of Canada, the Canadian Home Builders' Association and the Canadian Institute of Public Real Estate Companies take issue with the Finance Minister on his proposals to require the capitalization of land carrying costs and soft costs related to construction. The real estate industry representatives argue that to deny the deduction of carrying costs will particularly harm developers with long-term projects and will result in reduced land inventories, a shortage of serviced land, higher costs for both new and existing housing stock and less job creation in the construction industry. Why should developers and builders be the only industry not allowed tax assistance in financing its inventory carrying costs? The proposal to lower the capital cost allowance for depreciation on buildings from five to four percent, as well as the abolition of MURB tax advantages, also are opposed. In the end, both renters and homebuyers will suffer from these tax changes.\footnote{Urban Development Institute of Canada, Brief on Tax Reform (Mississauga: August 1987).  Canadian Home Builders' Association, Brief on Tax Reform (Ottawa: August 1987).  Canadian Institute of Public Real Estate Companies, Brief on Tax Reform (Toronto: August 1987).}

The Canadian Life and Health Insurance Association is fighting the White Paper's proposal for a special 15 percent income tax on investment income accruing to fund insurance liabilities of life insurance companies. Due to low profit margins, the life insurance industry will have no choice but to pass the costs of this new tax along to the consumer. The CLHIA went so far as to steal an arrow from the social policy sector's quiver by pleading the negative impact of tax reform on the poor. The investment tax will hit whole life policies hardest and apparently lower-income consumers are more likely to buy this type of life insurance.\footnote{A. Barnes, "Tax Reform Will Increase Cost of Life Insurance, Group Says", The [Toronto] Globe and Mail (Report On Business, 2 September 1987).}

Some business organizations feel that the reduction in corporate tax rates doesn't go far enough. The Canadian Organization of Small Business and the Retail Council of Canada urge further tax rate cuts to bring our tax system in line with the American's.\footnote{Canadian Organization of Small Business, Tax Reform and Small Business (Willowdale: August 1987).  Retail Council of Canada, Commentary and Conclusions on the Federal White Paper on Tax Reform (Toronto: August 1987).} The Business Council on National Issues recommends that the provinces lower their corporate income tax rates as well in an effort to reach a target of a 35 percent combined (federal/provincial) tax rate. The Canadian Manufacturers' Association
complains that the manufacturing and processing sectors will get smaller tax rate reductions than other sectors.

The White Paper's proposed anti-avoidance rule sparked a good deal of opposition. The rule says that a transaction not carried out for "bona fide business purposes" — including efforts taken to reduce, avoid or defer income tax — is to be ignored by Revenue Canada for tax purposes and that a taxpayer's tax position will be determined without reference to that transaction. The Canadian Federation of Independent Business, among others, sees the measure as a heavy-handed extension of bureaucratic discretionary authority that will lead to arbitrary rulings; will increase compliance costs for business; and will create uncertainty and confusion. Several briefs urge the government to at least clarify the crucial "business test" part of the proposal.

The issue of compliance costs is central to small business representatives. The Canadian Organization of Small Business and the Canadian Federation of Independent Business criticize the proposal to require weekly remittance of source deductions for companies with monthly remittances over $15,000, an ill-advised move that will raise paperburden and regulatory costs for small and medium-sized firms which tend to be labor-intensive.

While the indexation issue is usually mentioned in the context of personal income tax reform, the Canadian Manufacturers' Association and the Business Council on National Issues raised the lack of indexation as a problem in the corporate income tax as well. The absence of inflation protection means that the value of capital costs allowance claims is eroded since they are based on the original purchase price of buildings or equipment. Capital gains taxes and corporate taxes rise unfairly because the value of capital assets is not indexed.

**Personal Income Tax**

The White Paper's proposed tightening of the capital gains exemption and increase in the percentage of capital gains subject to taxation drew fire from several business groups. The Joint Securities Industry Committee on Tax Reform, representing the Investment Dealers' Association of Canada and the Vancouver, Alberta, Toronto and Montreal Stock Exchanges, argues that these changes will "adversely shift the balance in favour of dividend and interest income and away from capital gains". The Committee advocates the $500,000 lifetime

---


limit be retained for shares of limited Canadian companies and rejects the proposal to subtract net investment losses from capital gains. The Canadian Organization of Small Business wants the capital gains exemption for small business and family farms to be extended to asset sales.

As with the corporate tax regime, business favors lower personal income tax rates to reduce the 'excessive' tax burden, reward effort and discourage tax avoidance. The Business Council on National Issues recommends that provincial income tax rates also be reduced so that the top federal/provincial tax rate falls to 35 percent (the average combined top rate after tax reform will be about 45 percent).

The few business briefs which mentioned the conversion of exemptions and deductions to credits endorsed the proposal. The Canadian Organization of Small Business says the move will target assistance to those in need. The Business Council on National Issues, which generally pays more attention to social policy than other private sector spokesmen, notes that the White Paper's creation of a large number of tax credits lays the groundwork for shifting to refundable and/or diminishing credits, an important step to better integration of the tax and transfer systems. The BCNI also lauded the removal of 850,000 Canadians from the tax roles by raising the tax threshold, not only because it is just but also because it will "improve work incentives."  

The issue of indexation cropped up in a couple of business presentations to the Blenkarn Committee. The Canadian Organization of Small Business objects to increasing the proportion of capital gains subject to tax on the ground that this will impose a serious inflation tax on long-term investments" and will penalize small businesses and family farms.  

The Business Council on National Issues and the Retail Council of Canada advocate the re-introduction of full indexation of tax brackets, credits and exemptions when the government's fiscal situation improves. The BCNI adds that indexation of the tax system "would also encourage greater fiscal discipline and accountability, since governments would find it more difficult to raise tax rates explicitly than to rely on hidden and automatic increases in revenues resulting from the inflationary erosion of credits and exemptions".  

One tax issue which, as we shall see in the next section, separates business from labor and social policy organizations is the tax deduction for registered savings vehicles. The Business Council on National Issues advises the Finance Minister to raise the tax deduction contribution lim-

---

31 Canadian Organization of Small Business, supra, note 27 at 9.
its for registered pension plans and RRSPs once the current increases are phased in. The BCNI also recommends that annual contribution limits be fully indexed so that retirement savings will keep pace with the real cost of retirement.

The White Paper's proposals to tighten up the tax treatment of business-related expenses for the use of automobiles drew flak from both large and small business. Instead of setting an arbitrary ceiling of $20,000 for capital cost allowance and imposing different rules based on a 90 percent use criterion, the ceiling should be removed or at least indexed in some way and a straight proration of business versus personal use be allowed. The Canadian Manufacturers' Association argues that 100 percent of legitimate meals and entertainment expenses should be deductible, not 80 percent as proposed in the White Paper.

The National Hockey League Players' Association joined the fray and objected to the Finance Minister's plan to eliminate forward averaging provisions. The group's spokesman, Alan Eagleson, told the Blenkarn Committee that the players also want tax changes to allow the deduction of agents' fees and expenses such as public appearance at charitable functions and answering fan mail. Otherwise "you're going to see less and less of the top players in Canada."

Also in the entertainment vein, the Canadian film and television industry is unhappy about Ottawa's plan to tighten the tax shelters for film investors. The criticism is much the same as heard from high-tech firms: Why is the government cutting back on tax incentives at a time when fledgling industries are just getting off the ground and beginning to prove their capacity to perform as well or better than foreign competitors?

The White Paper leaves no sector in Canadian society untouched, and farmers are no exception. To deal with the problem of part-time and hobby farmers exploiting the farm loss provisions currently in effect, farmers will be required to calculate their income tax using the accrual system of accounting familiar to other businesses rather than the cash accounting method; farmers will have to value their inventories of grain and livestock as well as money owed to them. There will be new rules to separate full-time from part-time farmers and to determine whether losses will be deductible or not, and different rules for start-up farmers. Farmers' lobby groups — the Canadian Federation of Agriculture, Canadian Cattlemen's Association, Ontario Federation of Agriculture and western groups such as United Grain Growers Ltd. — as well as some Conservative MPs from rural constituencies have sharply criticized the new system, arguing that it is so complicated that most farmers will turn to accountants to prepare their tax returns. The critics claim the pro-

---

posed changes could hurt many legitimate full-time farmers; penalize first-time farmers; and accelerate the trend to larger farms.

Sales Tax

Business organizations heartily dislike the manufacturers' sales tax and generally support the Finance Minister's plan to replace it with a broadly-based sales tax. They uphold the notion of shifting the tax burden from income to consumption. However, they object to interim increases in the existing sales tax and urge the Finance Minister to move faster on the second stage of tax reform.

The Business Council on National Issues urges the Finance Minister to quicken the pace of consultations with the provinces so that agreement in principle can be achieved by January 1988, followed by the introduction of legislation in the first quarter of 1988 and implementation of a federal/provincial sales tax in January 1989. Most business organizations prefer the option of a national, broadly-based sales tax system which is visible to the consumer rather than hidden in the price of goods and services. Since it opposes the White Paper's intention to get more revenue from the corporate income tax and it favors even larger personal income tax cuts, the BCNI believes that the new sales tax system must generate more revenue than planned.

Business groups agree that the refundable sales tax credit should be increased to protect low-income consumers. The Business Council on National Issues accepts the White Paper's arguments in defence of including food in the expanded sales tax and points out that a substantial chunk of food consumption is already captured by both levels of government.

The Retail Council of Canada parts company with other business groups on the issue of taxing food. The Council is not convinced that a boosted sales tax credit can adequately protect the poor and fears a broadly-based sales tax would impede the consumption of food, which obviously would hurt food producers, wholesalers and retailers. The groups also worries that the food issue could jeopardize negotiations with the provinces and thus the success of the new sales tax scheme. They recommend that "basic foods for home consumption (but not restaurant meals) should be excluded from the sales tax base".34

LABOR, WOMEN'S AND SOCIAL POLICY GROUPS

Because their positions on tax matters are similar, the reactions of labor, women's and social policy organizations to the White Paper on Tax

34Retail Council of Canada, supra, note 27 at 23.
Reform are summarized together in this section. Naturally the groups differ to some extent in some of their particular concerns, but there is little disagreement in either the generalities or specifics of their assessments of the tax proposals. For the sake of brevity we refer to one or two groups when considering particular reactions or recommendations, even though in most cases several organizations make the same point.

It is fair to say that labor and social policy representatives are more critical of the Finance Minister's tax reform package than is business. Since they place more emphasis on the objective of fairness than the other aims (competitiveness, reliability, simplicity and consistency), they see a wide gulf between the White Paper's rhetorical commitment to a more equitable tax system overall and its performance in achieving this end.

The labor, women's and social policy groups surveyed deal mainly with proposed changes to the personal income tax and sales tax systems. For the sake of convenience, we will refer to these organizations collectively as the "social policy sector". At the time of writing, the author was able to read briefs from major national groups only, so the discussion does not treat the views of provincial and local organizations; however, past experience would indicate there is no reason to believe that their reactions will differ materially from those of their national counterparts.

Corporate Tax Changes

The social policy sector supports the federal government's attempts to broaden the corporate tax base and get a larger share of revenue from corporate income tax, though not the lowering of tax rates. However, the edifice of tax breaks remains largely intact and so the White Paper will not effect a fundamental reform of the corporate income tax system.

In their joint brief to the Blenkarn Committee, the United Church and the Canadian Centre for Policy Alternatives quote the Neilsen Task Force's apt characterization of government support to business as "giving with both hands".\(^3\) One hand gives up $9 billion a year in corporate tax preferences — about what it collects in corporate income tax — and the other hand proffers direct subsidies. Corporate tax expenditures are not only enormously expensive, but they are also at best an ineffective method of increasing economic activity and are more likely harmful: they allow corporations to defer large amounts of tax and so create an unstable tax; they encourage corporate buy-offs motivated by tax advantages; they encourage unnecessary and unproductive mergers and take-

\(^3\) L. Muszynski, Is It Fair?: A Primer on the Tax System and Tax Reform (Tax Reform Group of the United Church and the Canadian Centre for Policy Alternatives, September 1987) at 54.
overs which, in turn, lead to unemployment and greater corporate concentration; they are of greatest benefit to the most profitable firms which least need a public subsidy. Yet Canadian companies enjoy more generous tax incentives and lower tax rates than their counterparts in other advanced western nations.

The White Paper takes aim at only a few tax concessions. The Canadian Labour Congress points out that, of the estimated $3.5 billion in increased tax revenue to be obtained from base broadening by 1992, $2.2 billion will come from just two sets of changes — measures affecting the finance, insurance and real estate industries ($1.15 billion) and the reduction (but not elimination) of capital cost allowances ($1.07 billion). The CLC brief cites the Finance Department's own figures to the effect that, in 1983, 110,000 out of the total 320,000 profitable corporations paid no income tax; had the White Paper's tax reform proposals been in place that year, another 50,000 would have paid tax, which still leaves 60,000 companies which would escape the tax net.36

Incomplete as they are, the base broadening efforts will be partially offset by reductions in corporate tax rates that the labor and social policy groups do not believe are justified. The Canadian Labour Congress notes the White Paper's estimates that, while tightening tax preferences and other measures will generate an additional $3.45 billion by 1992, lowering tax rates will cost the federal treasury $1.89 billion, for a net gain in corporate tax revenue of only $1.85 billion.

The labor and social policy groups which discuss corporate taxation recommend that the government go further in its reforms and get more revenue from the business sector. The Canadian Council on Social Development proposes a target of 20 percent of tax revenues to come from corporate income tax, which is what companies contributed in the early 'sixties. In response to the argument that increases in corporate taxes have a regressive impact because in the end they will be passed on to employees and consumers, the Canadian Council on Social Development contends that the corporate income tax is "an important mechanism for taxing corporate wealth" and that a better corporate tax system will prevent tax evasion by foreign investors and ensure that shareholders in the more profitable enterprises pay a fairer share of taxes.37

The United Church/Canadian Centre for Policy Alternatives brief proposes a minimum corporate income tax as a stop-gap measure. Ideally most if not all corporate tax expenditures would be abolished and the


government would assist the private sector only through direct grants with performance guarantees. The personal and corporate income tax regimes would be integrated "so that the corporate tax would be just a withholding tax much like deductions from source for most salaried employees. All corporate profits would then be attributed to shareholders and taxed at the appropriate personal income tax rates."  

The Canadian Labor Congress also favors replacing tax concessions with direct grants but recognizes that, for the present, probably the best that can be achieved is a minimum corporate income tax. The CLC strongly opposes allowing corporations to pay deferred taxes under the new (lower) tax rates, since this will give them windfall gains at the expense of government. The Canadian Council on Social Development suggests either tightening further the corporate tax rules or more effectively taxing income from investment and dividends.

**Personal Income Tax Changes**

Labor, women's and social policy groups support the conversion of exemptions and deductions to tax credits, a reform they have advocated for years and can take some measure of credit in having won. However, this progressive move is counteracted by the reduction of marginal tax rates and the retention of several regressive tax concessions. As a result, the overall impact of the personal income tax proposals is to pretty much maintain the status quo so far as progressivity is concerned. Worse still, the failure to re-index the tax system will impose automatic tax increases that fall most heavily on lower-income taxpayers.

Drawing upon the detailed analysis in the National Council of Welfare's presentation to the Blenkarn Committee, the Social Policy Reform Group — a coalition of six national women's and social policy organizations (the National Council of Welfare, National Action Committee on the Status of Women, Canadian Council on Social Development, Canadian Advisory Council on the Status of Women, National Anti-Poverty Organization and Canadian Association of Social Workers) — argues in its brief that the personal income tax proposals will provide low- and middle-income taxpayers with relatively modest tax cuts that only temporarily stem the trend to increasing taxes in the 'eighties. Most working poor Canadians will continue to bear substantial average tax rates after tax reform. Families with children will suffer cuts in their federal child benefits and will benefit less from tax reform than childless couples with the same income.

---

38 Muszynski, *supra*, note 35 at 63.

The Canadian Labour Congress complains that income from investments will continue to receive more favourable tax treatment than income from employment after tax reform. Carrying costs incurred in earning investment income will still be fully deductible. Although reduced, the dividend tax credit will continue to provide tax savings mainly to the wealthy. The CLC, like the National Council of Welfare, notes that the only investment-related tax concession that will be abolished — the $1,000 interest income deduction — is the only one that many modest- and middle-income Canadians are able to use; and its loss will mean nowhere near as much to well-off taxpayers with many thousands of dollars in investment income.

Some social policy groups, such as the Canadian Council on Social Development and the National Anti-Poverty Organization, favor extending the White Paper's tax credits to poor people below the income tax threshold by making some of the credits refundable. The National Council of Welfare reiterates its call for a low income tax credit to remove the income tax burden from families and individuals living under the poverty line. The Social Policy Reform Group recommends abolishing special tax treatment for capital gains and concerting the tax deductions for registered pension plan and RRSP contributions into credits.

All groups decry the dilution of child benefits. The Social Policy Reform Group recommends that family allowances and both the refundable and non-refundable children's tax credits be fully indexed and that the refundable child tax credit be increased further to prevent losses to middle-income families and to improve benefits for poor parents. The National Action Committee on the Status of Women also want family allowances to be made non-taxable.40 The Canadian Council on Social Development proposes that the new flat-rate children's tax credit be doubled in value (from $65 to $130) and made refundable and that the existing refundable tax credit be tripled; with an indexed family allowance, total federal support for low-income children would come to $2,100 per child.

The Canadian Labor Congress comments on the White Paper's failure to act on its commitment to better integration of the tax and transfer systems. Instead of converting the age and children's exemptions into non-refundable credits, the Finance Minister could have rolled these tax expenditures into their direct spending counterparts — the family allowance and Old Age Security programs. Such an innovation would simplify the tax and transfer systems.

The social policy sector does not feel that the White Paper proposals will achieve any measure of simplification of the tax system. Reducing

40 L. Dulude, Brief on Tax Reform (Toronto: National Action Committee on the Status of Women, August 1987).
tax brackets from ten to three does not simplify matters any more than converting exemptions and deductions to credits.

Both the National Action Committee on the Status of Women and the Canadian Advisory Council on the Status of Women believe that Canada needs a universally-accessible child care system and do not regard the tax system as an appropriate instrument for assisting families with their child care expenses. They recommend redirecting the funds spent on the child care expense deduction to a direct child care program. Both groups disagree with the current practice of allowing the non-custodial parent to claim a deduction for child support payments while the custodial parent has to include such payments in her or his taxable income. Instead, both estranged spouses should be allowed to claim a portion of the child exemption or credit. Both national women's organizations welcome the White Paper's assurances that the individual will remain the unit of taxation and oppose any system of joint taxation of the spouses.41

One proposal that has some groups worried is the conversion of the deduction for charitable contributions to a credit. Taxpayers will get a 17 percent federal tax credit for the first $250 of charitable donations and a 29 percent federal credit for any amount over $250 up to a limit of 20 percent of net income (the same ceiling as currently applies). The White Paper argues that this change will benefit the many lower- and middle-income taxfilers who donate more than $250 a year and will stimulate more charitable donations. Representatives of voluntary associations which depend on such donations are afraid of losses in donations from higher-income Canadians, who will receive smaller tax savings from the new credit than the old deduction. Fund-raising campaigns will be more costly to run because they will have to appeal to a wider audience.42

The reduction in the top marginal tax rate is universally condemned by the social policy sector, which does not buy the White Paper's arguments about rewarding effort and keeping Canada's tax system in line with the American's. Most groups argue that the existing top rate of 34 percent should be retained. The Canadian Union of Public Employees suggests that the Finance Minister not only restore the 34 percent rate for taxable income over $75,000, but also add a 37 percent rate for taxable income between $100,000 and $250,000 and a top 40 percent marginal tax rate for taxable income over $250,000.43

---

41 See ibid. and Canadian Advisory Council on the Status of Women, Brief on Tax Reform (Ottawa: October 1987).

42 Community Action (Don Mills: 1 July 1987) at 1.

All social policy interest groups urge the re-instatement of full indexation for tax brackets and credits as well as family allowances. Failing that, the Canadian Union of Public Employees proposes a refundable tax credit to protect lower-income taxpayers from the effects of inflation.

In summary, labor, women's and social policy groups believe that the personal income tax system should be made more progressive and that Ottawa should increase, not decrease, its reliance on this part of Canada's overall tax system. Some groups advocate a wealth tax as well.

Sales Tax Changes

Labor and social policy groups are uneasy about the government's plans for a multi-stage sales tax scheme. While they do not dispute the arguments against the existing manufacturers' sales tax and do not reject out of hand the idea of replacing it with a visible, national retail sales tax, they strongly oppose the Finance Minister's plan to shift the tax burden from income to consumption. Rather, they argue that he should decrease his reliance on sales taxes. This issue clearly divides business from social policy groups.

Because sales taxes are regressive, the social policy sector does not believe that Ottawa can rely more heavily on this revenue source and less on income taxes and still manage to achieve a more progressive tax system overall. Building in a larger refundables sales tax credit simply shifts the level of regressivity up a few notches to moderate-income consumers.

Social policy groups have doubts about the Finance Minister's ability to deliver on his promise to offset the burden of the new sales tax on lower-income Canadians through an enlarged refundable sales tax credit, though they generally favor such an improvement. The National Council of Welfare, for one, sets a number of criteria for an adequate sales tax credit in terms of amount, frequency of payment, takeup rate and relationship with provincial social assistance programs. The National Anti-Poverty Organization focuses on the latter in its brief, calling on the federal government to amend the Canada Assistance Plan agreements with the provinces to ensure that welfare recipients receive the full value of the refundable sales tax credit. The Canadian Council on Social Development recommends that the turnover point for the sales tax credit be raised to the same level as the refundable child tax credit.

---

44 Battle, supra, note 9 at 18.

45 National Anti-Poverty Organization, Written Submission on Tax Reform (Ottawa: August 1987) at 2
Among the briefs surveyed, only the Canadian Labor Congress tackled the issue of taxing food. The CLC opposes the taxation of essential goods and services, including food, though it does not define what it means by essentials. However, it is likely that social policy groups will address the food controversy in future when the Blenkarn Committee begins hearings on the new sales tax.

CONCLUSION

No federal Finance Minister has managed to reform the tax system. Will Mr. Wilson succeed?

The social policy sector does not believe the White Paper proposals constitute real reform and is afraid that, in the end, Canadians will at best end up worse off than they are now. In all likelihood, their overall tax burden will increase as a result of the government's tax reform package.

However, the fate of Ottawa's tax reform plans does not hinge on what labor, women's and social policy groups think of them. Nor, for that matter, will business alone determine the outcome, though it may well wrest some concessions out of the Finance Minister in terms of some of his specific proposals concerning corporate taxes.

Reform or not, most of the proposed changes to the personal and corporate income tax systems probably will come about. The Finance Minister intends to sweeten the pot by altering source deductions for employees in July of 1988, a well-planned move that will deliver visible tax cuts in time for the next federal election. Presumably the government is counting on the fact that taxpayers will not object to paying less income tax, especially since most have seen their tax bill go up over the past few years.

The fate of the expanded sales tax — the lynchpin of tax reform — is another matter. Not only is the provinces' cooperation vital in order to implement the preferred option of a national sales tax — and their nervousness about the political fallout from a food tax may result in a less-than-universal tax base — but the government of the day must sell it to the Canadian people. A Decima poll taken in the spring of 1987 found that two-thirds of those surveyed opposed tax reform if it simply replaced income tax cuts with sales tax increases. The introduction of a new sales tax will be inflationary, at least in the short run. Having more disposable income to spend on things that cost more is not the sort of tax reform that will win many votes.

If, as is likely, Finance Minister Wilson implements his personal and corporate income tax changes in 1988, in order to make up the revenue shortfall his successor will be faced with the prospect of implementing what could well prove to be an unpopular sales tax. In the end, the fate of the 1987 White Paper will probably depend on which party wins the next election.