Tax Reform: An Appraisal

R. D. Brown

R. J. Dart

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Tax reform has now been around long enough to make it as familiar as a pair of old shoes, although perhaps not quite as comfortable. The two years that have passed since the introduction of the new Income Tax Act in Canada present sufficient perspective for us to attempt an appraisal of the new income tax system, albeit strictly from the viewpoint of tax practitioners, but with a few philosophical afterthoughts thrown in for good measure.

When the Conservative government decided in 1962 to review and reform our tax legislation, few disagreed with the decision to appoint a Royal Commission to first undertake a thorough examination of the Canadian tax system. At that time, only those who are most familiar with the habits of Royal Commissions and Canadian political processes would have speculated that the projected overhaul of the tax system would take over ten years to only partially complete, involving a Royal Commission report of six volumes, a comprehensive White Paper issued by the Minister of Finance, Bill C-259 containing 500 pages of detailed tax legislation (most of it bearing little resemblance to what had preceded) and uncounted tons of submissions, studies, arguments and just plain cries of anguish.

Not surprisingly, Bill C-259 containing the new Income Tax Act passed by Parliament at the end of 1971, clearly is not the end of the tax reform process. Successive amendments to the Income Tax Act have already introduced over 300 changes to the legislation originally passed at the end of 1971, and hundreds more may be expected over the next several years to correct anomalies, block loopholes, and generally smooth away the rough edges of the new income tax provisions. Tax reform, once begun, is clearly a never ending process involving a continuous series of refinements.

Why tax reform?

Before attempting to appraise what the new income tax legislation has and has not done for Canadians, it is appropriate to consider the reasons which led, back in 1962, to the appointment of the Royal Commission under the late Kenneth Carter to review the Canadian tax system. There were a number of controversial areas in the income tax system which created continuous friction between taxpayers and the revenue authorities, due to the fact that the legislation contained many uncertainties and had not kept up to date with Canada's burgeoning commercial development.

The lack of any clearly defined demarkation between fully taxable income from an adventure in the nature of trade, and the completely tax free capital gain appeared to be a never ending source of argument and litigation. In other areas, the taxpayers were clearly managing to get the best

* The authors are Toronto chartered accountants, and are special lecturers in taxation at Osgoode Hall Law School.
of the Revenue through schemes to remove the surplus of corporations without the normal incidence of taxation: a variety of anti-avoidance provisions, beginning with designated surplus in 1950 and culminating with ministerial discretion in 1963, were designed to block dividend stripping and other tax gimmicks which swept Canada during the 1950's and early 1960's.

On the one hand, taxpayers were arbitrarily denied any deduction for certain legitimate business expenditures — "nothings", while in other areas the overly enthusiastic response of taxpayers to certain incentives, such as the new mine exemption and the lower rate of tax on unassociated corporations, tended to erode the tax base. There were sharp distinctions in the total amount of tax imposed on essentially the same type of income flowing to taxpayers through different channels (such as directly or through a corporation) and a whole host of niggling unfairnesses and loopholes littered an Income Tax Act that was overdue for revision.

Now that the dust of the ten year battle over tax reform has settled, it is surprising to see how few of these issues tax reform has finally laid to rest.

Virtually all of the serious problems recognized in the income tax structure in 1962 remain under the new provisions, not as a result of any deliberate perversity on the part of the government, but because the political processes in Canada and the realities of an ever more complex business world simply do not admit of simple solutions to these complex problems.

The main product of tax reform was the inclusion of one half of realized capital gains in the tax base. The continued distinction between capital gains and ordinary income has meant that the arguments as to the treatment of borderline items continue unabated, although eventually the fight may be slightly less heated because the difference between tax at full rates and half rates is less marked under the new system than the difference between full tax and no tax under the old rules. Further, many of the complexities in the new Income Tax Act arise because Parliament quite properly did not seek to tax capital gains on a retroactive basis. To avoid the retroactive feature required a concept of a "Valuation Day" at the start of the new system; to avoid taxing the recovery of cost in those cases where assets acquired prior to 1972 were worth less than their cost on Valuation Day, the tax free zone concept was introduced. (The attempt to be fair in this area has made the tax rules regarding the adjusted cost base of a partnership interest almost incomprehensible.) Here, as elsewhere, the attempt to preserve equity in an Act which contains no clear cut philosophy of taxation leads to ever more complex tax rules.

Equity — vertical, horizontal, and diagonal:

One of the moving forces behind the entire tax reform process in Canada that started way back with the Carter Commission and continues today is the search for more "equity" in taxation — the just tax system in which everyone would pay his "fair share". The Carter Report was itself deeply concerned with horizontal equity — the concept that individuals in equal economic positions should pay equal tax — and vertical equity, meaning that individuals in different economic positions should pay an "appropriately" different amount of tax.
But if the lengthy debate about tax reform has shown anything, it has revealed that Canadians by and large are not so much attracted to elegant economic theories of fairness as they are to the simple question of how much tax they will be required to pay. Whenever the answer turns out to be "more", the objections are immediate and vociferous, regardless of the justification.

The Carter Report was attacked by a wide variety of interests, including such diverse groups as mining companies, farmers, cooperatives, and small businesses, as dealing unfairly with their own particular positions, i.e. the Report proposed to remove some of the preferences which these groups enjoyed. The diverse nature of the Canadian nation was reflected in the political pressures which these groups generated, pressures which ultimately destroyed the symmetry of the Carter package and led to the adoption of a tax reform program which was really not so much a brilliant new approach to taxation, but rather a refurbishing of the old system made somewhat more effective and considerably more complex, with a capital gains tax grafted on top. The tax reform amendments were a typically Canadian solution to a series of difficult philosophical and practical problems — they were a compromise between many conflicting points of view; they made no one particularly happy, but avoided making any large group extremely unhappy.

*Play it again Sam, the Old Way*

Many people, when commenting on the provisions of the new Act, refer to their undoubted complexity, the unfamiliarity of the approach, and the general newness of the many difficult problems which they have raised for tax practitioner and taxpayer alike. But it is remarkable upon reviewing these problems to see how many of them have their roots in the old Act, and have been continued, albeit in altered form, in the new provisions.

Back in the days of the Carter Report and the Great Debate on Tax Reform, it was generally expected that the introduction of a tax on capital gains would remove the need for all of the complex paraphernalia of the Income Tax Act designed to prevent the distribution of corporate surplus as capital gains.

The rules on designated surplus, and ministerial discretion to stop dividend stripping provided under Section 138A and other special provisions are all examples of the approach taken under the older legislation to prevent taxpayers from converting what would have been taxable dividend income into tax free capital gains.

The introduction of a tax on capital gains accruing after 1971 and the revised rules for the taxation of dividend income have sharply narrowed the spread between the tax rate on these two different types of income. Capital gains received by individuals are now taxed at a maximum tax rate of 31% (in Ontario) while the corresponding maximum tax on dividend distributions would be about 47%. (Under the old Act the rate of tax on capital gains was zero, and the maximum tax rate on dividend income was about 60%.)

Despite the much lower tax differential, the policy decision seems to have been that it is absolutely necessary to maintain the distinction between the capital gains and income arising on the distribution of corporate surplus.
The reasoning behind this may be challenged, as this distinction is really only applicable to shareholders of private corporations: shareholders of public companies realize their share of the undistributed income of their corporations at capital gains rates quite readily, by simply selling the shares in the marketplace. However, the new Act contains reinvigorated provisions relating to designated surplus of almost unbelievable complexity, designed to ensure that taxpayers will not be able to escape paying tax on distributions from corporate surplus; and the only change made in the often criticized ministerial discretion provisions of Section 138A has been to renumber the Section.

The retention of these provisions in the new Act, at least beyond their application to surpluses accumulated to the end of 1971, is unfortunate for a number of reasons. The rules with respect to designated surplus will not in fact enable the government to collect any significant amount of tax: rather, what they will do is to prevent businesses from organizing their affairs in the most efficient way. Furthermore, the plug of the designated surplus is several times as large as the loophole that it was designed to cover, with the result that the designated surplus rules will hamper corporate distributions and reorganizations which in no sense involve any real distribution of corporate income.

This is an example of an area where the tax reform measures, far from solving difficult policy questions, have in fact made existing problems worse by making previous restrictions more effective.

Business reorganizations — what went wrong?

The new Act makes it abundantly clear that taxation is the almost invariable rule and a tax free “rollover” is a highly circumscribed exception. Gain or loss must now be recognized on all transfers of assets between non-arm’s length parties — even transfers involving no real change in economic ownership — unless the transfer fits one of the relatively few and narrow exemptions.

Where Canadians in the past took for granted that they could transfer assets between companies within a related group, they now meet potential tax on recaptured depreciation, the value of goodwill, and the increase in value of capital assets from their value on Valuation Day. Taxpayers are required to fit any tax free “rollover” transaction within prescribed reorganization rules which suffer more bugs than the average family car. Unfortunately, the government has not seen fit to adopt the recall procedures of the major auto companies.

Business reorganizations and mergers are of course the subject of intense interest to lawyers and accountants practising in the taxation field, and it is in this area that the new income tax rules have come in for some of the heaviest criticism. Both the underlying spirit and the execution of the business reorganization rules of the new Act seem to reflect an uncomfortable narrowness of approach.

For example, the liquidation of a wholly owned subsidiary into its parent company appears to be a simple enough transaction, and one which should clearly qualify for a “tax free” reorganization — a postponement of any rec-
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Knowledge of gain or loss — since there has been no change of economic ownership of the subsidiary’s assets. A “rollover” is in fact provided under Section 88(1) for such a transaction. Yet, two years after these rules were enacted that Section still arbitrarily and inexplicably required a liquidating subsidiary to pay tax on any of its reserve accounts (such as its allowance for doubtful accounts and reserve for uncollected instalment sales) without allowing the parent any corresponding deduction. (The May, 1974 budget proposals would, if adopted, remove this particular problem.)

Another example of a rather inexplicable awkwardness in the case of the liquidation of a wholly owned subsidiary arises in respect of the flow of the subsidiary’s 1971 surplus balances to the parent company. In theory, if the liquidation is to be treated as a “tax free” reorganization, the 1971 surpluses of the subsidiary should be transferred intact to the parent, so that the winding up of the subsidiary will have no net tax consequences on the organization.

However, the actual provisions of Section 88 require that, to achieve this transfer of surplus accounts, the subsidiary corporation must first pay 15% tax on all of its 1971 undistributed income and file the proper election forms in order to transfer the 1971 surplus balances to the parent.

A strict technical interpretation of Sections 88(2) and 83(1) suggests that even then the transfer is only effective provided the subsidiary determines to the dollar the exact balance in these accounts. Such an exact determination will in most instances be completely impracticable since the balances depend upon many factors including the value of capital assets on Valuation Day. (Fortunately, the Technical Interpretations Division has advised that the Department will accept a Section 83 election to be valid when subsequent adjustments are made to the surplus balances.)

Having followed through the proper steps, the parent may then wait for a year for a refund of the 15% tax paid by the subsidiary on its 1971 undistributed income, provided the parent meets a number of specific rules in Section 196(2). These steps, with their attendant difficulty, complexity and expense, are required to merely liquidate a subsidiary into its parent without any tax advantage to the business concerned. (Again, the federal budget resolutions of May 1974 would, if enacted, solve many of these difficulties.)

A third “rollover” provision (Section 85(1)) allows the “tax free” transfer of assets to a corporation in which the transferor holds 80% or more of each class of stock. However, these rules too have their pitfalls for the unwary. Section 85 is designed to permit an individual to incorporate his business on a “tax free” basis, i.e. without having to recognize any immediate gain on the transfer of the assets to a company owned by him. However, the rollover is only available in respect of capital assets (including depreciable property), eligible capital property, and certain resource properties. No “rollover” is available with respect to such a common business asset as inventory. (The May, 1974 budget resolutions would extend the categories of assets which can be “rolled into” a corporation, as well as remove the “80%” requirement.) Further, while a taxpayer may transfer capital assets into a con-
trolled corporation under Section 85(1) he may not also transfer any re-
serves in respect of uncollected proceeds or other items which relate to the 
assets being transferred.

Again, the narrowness of the “rollover” rules is in practice made even 
more serious by nagging anomalies that can prevent even the apparently 
limited “rollover” from giving the taxpayer the intended relief. While the 
“rollover” rules under Section 85 are clearly designed to allow a taxpayer to 
transfer depreciable property to his company on a “tax free” basis, the precise 
wording is such as to often deny the “tax free rollover” where the taxpayer 
transfers more than one depreciable asset in a class at the same time.

Further, the election to transfer property into a corporation under Section 
85 is only available where the transferor owns at least 80% of each class of 
stock of the corporation. General Motors of Canada can transfer all of its 
capital assets to a newly formed subsidiary but two small businessmen who 
would like to form a jointly owned company to carry on their two separate 
busineses will find that they are denied a rollover, since the transfer from 
each of them will not be to a corporation in which each will own 80% of 
the outstanding shares. The two persons could attempt to circumvent this 
rule if they wish — and if they have knowledgeable tax advisers — by having 
each person transfer his business assets to a wholly owned corporation, then 
amalgamate the two corporations on a “tax free” basis (provided that the 
corporations are not too dissimilar in size).

Again, to achieve a reasonable result, the businessman has been forced 
into adopting a complex and costly arrangement for a simple business trans-
action. Even with all of this work, they may still not have achieved their goal: 
if the taxation authorities consider that the incorporation of separate cor-
porations followed by a subsequent amalgamation is an “artificial” circum-
vention of the restriction that a rollover is only available to an 80% owned 
corporation, then the transaction could conceivably be attacked as a tax 
avoidance program.

Precise rules destroy flexibility

An unfortunate feature of the new Act is the greater reliance on specific 
rules. It was inevitable that the general principles of taxation of former years 
would give way to the realities of the complex world in which we today live. 
Nevertheless, a very legitimate criticism of the new Act is that it has been 
drafted with too many specific rules which appear designed to combat tax 
avoidance and artificial tax minimization schemes rather than trying to ac-
commodate itself to the realities of economic life.

The Act appears to assume that taxpayers are highly sophisticated per-
sons, or at least have the advice of sophisticated tax advisers. It appears more 
concerned with preventing these high-priced experts from avoiding tax for 
their clients than to serve the needs of Canadian businessmen in Moose Jaw 
or in Richmond Hill.

For example, the new Act contains quite commendable rules which 
permit corporations to distribute 1971 surplus balances to their shareholders 
in the form of special “tax free” dividends after the payment of 15% tax on
The directors of the company must first pass a resolution electing to pay tax on 1971 undistributed income, and file that election along with the payment of tax. The payment of tax must accompany the form or the election is invalid. The directors must then declare the dividend out of the 1971 surplus accounts, again in prescribed manner and form. Following this, the corporation must file the Section 83(1) election form before paying the dividend.

It is not surprising that taxpayers have become confused with these procedures, especially since many other tax forms or elections may be filed up to six months after the year end. The Department of National Revenue is now evidently deluged with situations where corporations have not followed the appropriate manner of electing to pay the tax and distribute the surplus, and therefore face a penalty tax of 100%.

The small businessman who wishes to take advantage of the rules by which Parliament clearly intended that he be permitted to receive the surplus in his corporation at a 15% tax cost is faced with being required to complete a maze of elections, motions, and form filings in a very precise manner and order. The Government has simply over-estimated the ability of Canadian taxpayers and their advisers to cope with the complexities of this 1971 surplus distribution system. Why could not Parliament have adopted a somewhat simpler route whereby a corporation merely declares a “tax free” dividend out of its 1971 capital surplus balances? A simple directors’ resolution authorizing such dividend and the subsequent filing of a form within, say, three to six months together with the payment of 15% tax to the extent that the dividend came out of 1971 undistributed income would seem sufficient. Interest could be required dating from the date of the dividend payment with the form itself to be filed within, say, six months. Furthermore, if the total tax free dividend declared by a corporation exceeded its 1971 surplus balances, surely in lieu of a 100% penalty tax, the Act could have given an escape route whereby the shareholders of the corporation would elect to treat the excess as a taxable dividend in their hands.

Of course, the provisions regarding the distribution of tax free dividends are not the only part of the Act to contain overly harsh and specific rules. For example, where control of a corporation changes hands, the Act provides that any capital loss carry forward expires immediately. This would seem reasonable in order to avoid obvious trading in loss companies but the harshness of the rule becomes obvious when one contemplates a change of control occurring on the sudden death of a major shareholder. In any event, why don’t the rules permit loss carryovers at the date of change of control to be used to reduce capital gains in respect of capital assets in the corporation at the time control changed hands or at least with respect to unrealized capital gains at that date?

One should not overlook the fact that specific rules also existed in the former Act which created the potential for harsh treatment of the taxpayer. However, taxpayers tended to overlook certain technical problems in the
old Act because it was generally accepted that the Department of National Revenue would assess on a basis which was reasonable to all concerned. For example, no rule existed to prescribe the basis of depreciable property transferred on the liquidation of a corporation, and yet for years everyone — including the taxation authorities — would act on the basis that such assets were transferred at their net value as accepted for tax purposes. However, the new income tax rules, with a host of highly arbitrary and specific provisions, have made such informal accommodations between taxpayers and revenue authorities much more difficult.

Better taxes — or more taxes

Back in 1962, when the Carter Commission was first established, the revenues of all governments in Canada took about 29% of the Gross National Product. In 1973, following the implementation of income tax reform, the share of GNP taken by governments had increased to 38%. Tax reform therefore helped to achieve at least one important result: if it did not give us a simpler or a better taxation system, at least it gave us more taxes.

A good part of the increase in government revenues over this 11 year period did not come because of increases in tax rates, but rather from the almost incredible buoyancy of personal income tax revenues. Inflation over this period has increased money incomes far faster than real incomes, pushing individuals into higher tax brackets and causing personal exemptions to represent a smaller proportion of total incomes. This has enabled the federal and provincial governments, who both share the personal tax field in Canada, to reap a bonanza of additional personal income tax revenues without having to actually change tax rates.

It appears that income tax reform measures have likely increased, at least slightly, the elasticity of the personal income tax system, resulting in more revenues to federal and provincial governments since the end of 1971. This factor, combined with the rapid inflation of the last year or so, has contributed to the growing predominance of the personal income tax in government revenues.

In view of this, the about-face of Finance Minister Turner in adopting Robert Stanfield’s proposal for the indexing of the personal income tax system is perhaps not as surprising as it might first appear. The adjustment of income tax brackets and exemptions to automatically take account of the effects of inflation will slow down but not stop the increase in government revenues resulting from inflationary trends. It will also force both federal and provincial governments to justify further increases in personal income taxes rather than reaping them automatically through the influence of inflation.

The indexing of the personal income tax structure is one of the most significant — perhaps the most significant — change that the entire tax reform process has brought to Canada, although this proposal was enacted after the tax reform package itself.

The other shoe

Despite the fact that the income tax amendments passed at the end of 1971 were supposed to represent a comprehensive attempt to adjust the entire
income tax structure, the fact remains that more and more tax reform is being looked upon as an on-going and never ending process. In the first place, despite many amendments to the Income Tax Act to correct technical defects and problems, many more changes will be required to put the Act in shape and to block loopholes and correct anomalies. Further, even though the Act has been in effect for only a little over two years, it is already beginning to show signs of wear around the edges: the international proposals clearly need a major overhaul even before they become fully effective. It is quite likely that the natural resource area, particularly oil and gas, will see some major changes arising out of the current energy crisis, and policy decisions on such diverse matters as corporate reorganizations, capital cost allowances and retirement income will have to be thought through again within the next year or so.

Moving outside of the income tax area, the comments of the Carter Report on other areas of taxation, such as sales and excise taxes, remain largely unreviewed.

It is likely that over the next three or four years, there may be major revisions in other government revenue fields at the federal level; and of course the provinces, always short of cash, are also overhauling their tax systems with the main idea to collect more from the public by one means or another.

The rate of change in the taxation system has accelerated from virtually a snail's pace in the 1950's and early 1960's to a bewildering and rapid series of changes occurring at all levels of government in Canada, and shows no sign of slowing down. Tax reform has become institutionalized.

Corporate rip-off or rape?

The Carter Report assumed that the taxation system was not a particularly valuable tool to promote economic growth. Rather the Report assumed that a neutral tax system — a tax system which did not actively retard investment or discriminate against particular types of economic activity — would provide a favourable environment for economic activity. However, as many critics of the Carter Report pointed out, it is only appropriate for a taxation system to be neutral in a neutral world, and the realities of Canadian life are that our economic system must respond to the competition and stimulus of other economies. Further, there are many non-neutralities in our society which are caused by other than income tax factors — tariffs, provincial restrictions on trade, monopolies, and labour unions are only a few of the items that might be cited.

One of the major defects in the Carter Report which was unfortunately carried through to the new tax system evolving out of it is the lack of any comprehensive analysis of the relative tax position of Canadian business. The Carter Report recognized that our total tax system — not merely the income tax — might well have a somewhat unfortunate effect upon the ability of Canadian industry to compete at home and abroad. Unfortunately, this recognition was not carried through with any penetrating analysis to discern just what the comparative position of Canadian industry might be and just what effect the total tax system had on economic development in Canada.
An analysis of the total burden of the Canadian tax system on Canadian industry and commerce shows that Canada has developed a peculiar and highly biased approach to the taxation of industrial effort in this country. In fact, Canadian governments collect a relatively onerous corporate income tax by international standards, and as well impose an unexpectedly heavy hidden burden of sales taxes, capital taxes, realty taxes and other miscellaneous imposts on Canadian business activities.

There is evidence that the overall tax structure in Canada imposes a heavy tax burden upon Canadian business activities—a burden significantly heavier than that imposed on corresponding businesses in other countries. Furthermore, a large part of the Canadian tax component of business costs is fixed and unresponsive to changes in the business cycle, resulting in a considerable drag on the profitability and flexibility of Canadian business activity.

Far from Canadian businesses being in a position to “rip off” the Canadian Treasury, there is some evidence that Canadian businesses are amongst the most heavily taxed in the world, when the effects of all aspects of our taxation system are taken into account. This is not a statement that can be easily proved or disproved—measurements in this area depend on the criteria and assumptions selected. However, it seems clear that this aspect of the Canadian tax system has not received the attention which it deserves, either during the Carter Report days or subsequently.

**Tax reform — too slow, or too fast?**

If tax reform had been introduced gradually, taxpayers would have had time to digest the reforms and the government would have had an opportunity to profit from the inevitable mistakes.

The federal government has learned from the tax reform debacle, but perhaps not enough. We are still following a basically outmoded budget system where tax changes are prepared in secret by a small group of persons working in the Tax Policy Branch of the Department of Finance, and are then sprung on the country on budget night with the hope that the amendments will be clear, and that all possible difficulties have been foreseen. The problem does not lie with the civil servants working in the Tax Policy Branches of the Departments of Finance and National Revenue. (These people are, on the whole, an extraordinarily dedicated group—by and large they are more intelligent and able than most of their critics.) Rather, the problem is with the system itself.

The government and the Canadian public may learn that in taxation as in other areas of human affairs, the change which frequently sticks the longest and does the most is the change that is carried out gradually with the cooperation and consultation of those affected.

We all know the difficulties and complexities, the agonies, the incredible intricacies that have been foisted upon us with tax reform in Canada over the past three years. In our view, these difficulties could have been made much less serious if the government, instead of bringing in tax reform like the millennium in June of 1971, had instead embarked on a series of changes to the Income Tax Act, beginning back in 1963. Some of the amendments which
were announced with so much fanfare in 1971 were, in fact, long overdue in 1963; most of the problems were recognized and many of the solutions were apparent.

We operate in Canada under the myth that to involve taxpayers in commenting on the detailed provisions of tax legislation in advance of their introduction would be somehow immoral. Tradition states that all tax changes — no matter how technical — must be first announced in the House of Commons, in order to preserve sovereignty of Parliament. Yet can members of Parliament realistically be expected to understand the technical amendments? They have neither the time nor the ability to criticize government tax proposals except in their broadest outline. Their function is one of setting broad policy guidelines.

We further have the fiction that the government seems to stand or fall on whether a comma is or is not removed from some technical amendment, with the consequent result that the government has little flexibility in reacting to taxpayer comment in the brief period between the introduction of legislation into the House of Commons and its passage into law.

Put all of this together — the outmoded ideas of budgetary secrecy, the myths of the supremacy of Parliament with respect to technical amendments it doesn’t understand, and the inflexibility of the procedures for adopting tax changes — and we have put the process of developing new tax policies into a strait jacket. Improvements in the way in which we approach the difficult problem of continuously revising our tax system to keep it equitable and in line with economic requirements must await changes in the way in which we go about bringing forward tax amendments.

This issue was one of the major points made in the 1972 and 1973 briefs of the Joint Committee on Taxation of The Canadian Bar Association and the Canadian Institute of Chartered Accountants. The Joint Committee argued in these submissions that greater taxpayer involvement in the tax change process and greater openness in the process of revising tax amendments was an essential prerequisite to coping with the technical problems and complexities of our “reformed” tax system.

The other side of the coin

Our appraisal of income tax reform in this article has been, in the main, of a critical nature; but it is not appropriate to end the review with such a one-sided comment. The pressures which led to the appointment of the Royal Commission on Taxation in the first instance and the subsequent revision of our income tax system were deeply rooted in the belief of most Canadians that our previous tax system could and should be made more equitable. To a significant extent, the pressure for tax reform was not merely the desire to improve the technical provisions of the Act so as to satisfy tax practitioners, but a much more deep-seated feeling that the heavy and increasing burden of taxation in Canada should be shared on the fairest possible basis.

To a degree, this desire has been fulfilled in the new Income Tax Act. The tax base has been broadened to include capital gains and a number of
other previously untaxed items; deductions have been made more comprehensive and the fairness of the whole system significantly improved. Given the diverse nature of our country and its various pressure groups, it was not possible to adopt a single coherent and comprehensive approach to the sharing of tax burdens, so that special rules for special circumstances, compromises, and just plain indecision continue to pepper the Act. But the movement on the whole was definitely in the right direction: it remains for us all to recognize that the process of tax reform has not been completed and that substantial improvements in the way in which our tax burden is allocated are not only possible but necessary.