

A TAXING PROPOSAL FOR RADICAL REFORM

THE SINGLE TAX

BY DENNIS MILLS
Hemlock Press, Toronto, 172 pages, \$14.95.

REVIEWED BY PATRICK GRADY*

Dennis Mills, MP for Broadview-Greenwood, has with this polemical pamphlet as his manifesto embarked on a campaign to reform and simplify the tax system. Unlike previous efforts at reform, which have always ended up making the tax system more complex, his prescription is for radical surgery, replacing the reams of forms that submerge us each April with two simple postcard-sized returns. His proposed personal compensation tax and a business income tax would take the place of the personal and corporate income taxes.

Despite its title, The Single Tax, which was lifted from the famous proposal of the nineteenth century U.S. social reformer Henry George, Mr. Mills does not advocate a tax on land, but a flat rate income tax at a 25 per cent rate applicable to both personal and business income. His inspiration was a U.S. proposal by Stanford University professors Robert Hall and Alvin Rabushka.

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A team of researchers assembled by Mills and composed of his own and parliamentary staff started with the proposal for a flat tax and went through several revisions as they adapted the American import to a more progressive Canadian environment. Notable additions are generous tax credits for personal, spouse, children, elderly, UI and C/QPP contributions, RRSPs, and charitable contributions. These, according to analysis presented in the book, are sufficient to allow the introduction of a flat tax while actually enhancing the progressivity of the income tax. An unfortunate exception is that the lower income elderly would be disadvantaged.

Where Mills' proposal for a single tax falls flat is on the business side. Business income after allowable costs would be subject to a 25 per cent tax. Interest and dividends would be deductible except for dividends to foreigners.

The taxation of foreign income and the tax treatment of foreigners is one of the most complex areas of taxation where Mills' proposal comes up short. Not taxing the foreign income of Canadians as he proposes would open up a Pandora's box of tax loopholes. Allowing the deductibility of dividends to residents, but disallowing those to foreigners would run afoul of our tax treaties and be discriminatory.

Under the Mills' proposal depreciable assets could be written off at 20 per cent per year. While this definitely would simplify the accounting for capital investment, it would do so only at a high cost in terms of distorting investment decisions in favour of assets such as structures with long service

lives and away from assets such as machinery and equipment with shorter service lives. This would, for example, encourage investment in real estate and discourage investment in computer software and equipment. The current tax incentives for research and development would be scrapped. Capital losses could only be carried forward and not backwards as is currently the case. The single tax would clearly not be as favourable to investment as Mills contends and would not be likely to create any supply side miracles.

There is additional complexity in Mills' proposal for investment income. Individuals would have to file as businesses to claim interest expense or capital losses.

Mills' book takes aim at the GST. In a highly partisan chapter based on the Liberal minority report of the Finance Committee, Mills chronicles every deficiency real and imagined of the GST. This part of the book is somewhat dated as it deals with a 9-per-cent GST.

Mr. Mills claims that the single tax would make the GST unnecessary. This is not because the single tax will raise enough money at current levels of economic activity to enable us to get rid of the manufacturers' sales tax as well as the personal and corporate income tax, but because, blinded by supply-side optimism, he thinks economic activity will be so much higher with the single tax that enough additional revenue will pour in.

As tax treatises go, The Single Tax is light on hard analysis and heavy on rhetoric and testimonials. It fans the flames of tax revolt and holds out the hope that a panacea called a single tax exists that can transform the

complexity and arbitrariness of the current tax system into fairness and simplicity. Would that life were so simple.

On the other hand, The Single Tax is dead on target with its scathing criticisms of a personal income tax system that has surpassed all reasonable bounds of complexity. Mr. Mills is to be congratulated for having the guts to stick his neck out with a concrete proposal to simplify the tax system. Hopefully, his book will start a serious debate in the country about how this can be best done.