

The Canadian Alliance's proposed \$10,000 exemption would make no difference to them.

Of the 20.8 million people who filed a tax return in 1996, only 14.2 million actually paid taxes. The 6.6 million who paid nothing were overwhelmingly at the bottom of the income scale: 98% had incomes of less than \$20,000.

There's no way a higher basic exemption could benefit the low-income people who don't even pay taxes under today's system.

Killing two taxes at one go

If there's anything flat taxers hate more than income tax it's the capital gains tax.

A portion of income received from capital gains and dividends are already tax free. But flat taxers want more. So, under most versions of the flat tax, capital gains, dividend income, and interest income would escape any and all personal taxation whatsoever.

Flat taxers argue that taxing capital gains, dividends, or interest is bad for business. They maintain lifting such taxes would give businesses and their investors a tax break they richly deserve.

This claim neatly disregards the fact we've been giving business nothing but tax breaks for over half a century. In 1950, corporate and personal income taxes each accounted for about

22% of the revenues of the Canadian government. Now, corporate income taxes account for a mere 6%, while personal income taxes contribute more than 46%.

In fact, one of the biggest causes of our federal finance problems, was and is, the deliberate shift in tax burden away from corporations and onto the shoulders of individual taxpayers.

Statistics Canada data show that in 1997, 112,008 corporations with combined profits of \$56,242 billion paid no taxes at all. Not a penny!

It's time corporations and investors gave us all a break and paid some more tax—not less.

The bottom line:
Who benefits the most

There is only one bottom line in evaluating any tax cut—flat or otherwise. You find it when you find out who benefits the most.

The bottom line of the Canadian Alliance's scheme is that the better off you are, the better off you'll be.

The *Ottawa Citizen* calculated the Canadian Alliance flat tax scheme would reduce the income tax paid by a single individual earning \$20,000 a year by \$554. However, an individual earning three times as much (\$60,000) would get six times that cut (\$3,379.)

A single income family of four taking in \$20,000 a year would get a cut of \$1,018.

If that same family earned \$60,000, their tax cut would amount to \$5,070.

Finally, a dual-income family of four with household income of \$20,000 would get a \$864 cut. At the upper end, a dual-income family of four with annual income of \$60,000 would pocket \$2,772 in tax breaks.

The Citizen also calculated the Canadian Alliance flat tax scheme would cost us big time: the federal government would be out \$34 billion per year in lost tax revenues that, of course, translates into additional service cuts and user fees for public programs!

IF flat taxers have a point at all, it is that our current tax system is too complex and exceedingly unfair. We need reform—real, honest, just and transparent reform.

That's not something any flat tax scheme can ever deliver.



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*The belief in a flat tax will do for
taxation what the belief in a flat
earth did for navigation.*



**RIGHT
OVER THE
EDGE**

THE PERILS OF PURSUING
THE FLAT TAX FANDANGO

All of us would like a fair tax cut.

But, the rich would love a Flat Tax cut.

A flat tax would:

- be of greatest benefit to large corporations and higher income individuals
- make our tax system even more unfair
- greatly reduce government revenues
- greatly reduce the public programs and services we all depend on
- significantly reduce the ability of governments to even out our economic differences

WHO likes an idea can often tell you all you really need to know about it. The financially rich and politically conservative love the idea of a flat tax.

It's been high on their list for a long time. Back in the '80s Peter Pocklington made it a part of his bid for the Conservative Party Leadership. It's on their minds today as they try and sort themselves out into the Canadian Alliance Party.

But it is still an idea whose time just refuses to come—thank goodness.

WHAT you really want to use something for is what's important—not what you say you want it for.

The popular appeal of a flat tax rests on its promise of a hefty tax cut. Flat taxers like it for that. But, it's why they love it that really tells the tale.

Their real objective is to change everything about the way we govern ourselves—tempting us with the promise of lower income tax is just a way to get us to buy into their full agenda.

Flat taxers will use their tax scheme as a way to ensure that:

- economic and social programs, badly damaged during the alleged fight against the deficit, will never be rebuilt;
- governments—forced to function with vastly reduced revenues—become permanently smaller and less effective;
- businesses face fewer regulatory constraints and much greater op-

portunity to take over services once provided by government;

- the rich contribute far less toward the general well being of our country.

A flat tax is the best way to achieve all that and more. That's why the flat tax is the "mother of all tax cuts."

HOW is it possible that a proposal to give us lower income taxes can wind up undermining and damaging everything we have always counted on government to deliver?

Here's how.

Simpler for who exactly?

Flat taxers say the beauty of their scheme is its simplicity: one flat tax rate to apply to us all across the board. What could be simpler? Everyone would apply the same simple percentage rate (17% in the Canadian Alliance's scheme) and that would be it.

No more 1,400-page *Income Tax Act* to wrestle with. No more maze of rules and regulations to confuse and confound us. And, best of all, no more loopholes and dubious deductions for tax lawyers to find for their wealthy clients. What a deal!

Not really. Working out our income tax is pretty simple for most of us right now. Our pay cheque is about our only income. We don't have extra cash lying around. So, we don't use fancy loopholes and tricky write-offs to hide or protect it. The rich do.

Things are pretty complicated for them. They have to pay tax

lawyers and tax accountants lots of money to interpret the *Income Tax Act* for them. Making things simpler would save them all the money they lay out in fees.

Doing favours for the rich is not the kind of tax simplification we need and want. What we need is tax simplification that makes things better for us all—not just the rich.

Would you call that fair?

Is it fair to tax people more who have more? Flat taxers say no. This flies in the face of the way we have always done things in Canada.

For all the years we've had an income tax we Canadians have considered it fair to have a progressive tax system, where people pay taxes according to their ability to pay. Such a system eases the tax burden for those of us with less; and increases it for those of us with more.

Flat taxers believe this is wrong. Their god is "the market." They believe "the market" distributes income, wealth, and opportunity in the most appropriate way. So, if you're poor it's your own fault and the judgement of the market.

Flat taxers believe a tax system that tries to even things out—even a little bit—distorts the market's master plan.

They don't like our current progressive tax system. They don't like a system that recognizes different individual circumstances—and the fact that a person's market income isn't necessarily the final word on economic justice. They don't like a system that admits mar-

ket income depends on a variety of circumstances, many of them beyond individual control.

In our progressive income tax system, we do believe it is fair to ask people to share the wealth a little. We deliberately use taxes to change the market's distribution of income. More equality becomes a social goal and, in an effective system, an economic achievement.

The way we set and collect income taxes now, those at the top pay more. We consider it a reasonable price for the privilege of enjoying a greater level of prosperity.

And that's fair.

Tax breaks on top of tax breaks

Flat taxers never saw a tax exemption they didn't like. The Canadian Alliance's nifty flat tax scheme would give everyone—rich, poor, and those in the middle—high personal exemptions before any of us are required to pay *any* income tax at all. And once again, those with more are promised even more.

Thus, while the Canadian Alliance scheme would increase the basic tax exemption to \$10,000 for all—high income earners would get even more.

Exactly how giving added tax breaks to the rich helps the rest of us is less than obvious. Particularly when combined with the fact major reduction in pub-

lic services would just have to result from the huge tax reductions flat taxers propose.

These reductions wouldn't hit rich people very hard. They could always buy private sector options (like additional medical coverage).



The hardest hit would be those at the lowest end of the income scale. They would be deprived of an even wider range of public programs and services than they have already lost as a result of past tax cuts.

You can't save on what you don't ever get

Almost one out of every three Canadians couldn't care less about income tax exemptions. That's because they never get any, due to the fact they don't earn enough money to pay any income tax in the first place.