A Positive Approach to a Negative Income Tax: A Proposal for Canada

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I Introduction

The concept of a Negative Income Tax or Guaranteed Annual Wage[1] has begun to receive more attention and study in Canada as a result of the recent report of the Special Senate Committee on Poverty.[2]

Before the publication of this *Report*, the subject was of interest primarily because agreement in principle was one of the few common meeting grounds of theorists of both the so-called left and right. The topic had been canvassed on a conceptual basis in many of the leading American journals dealing with both law and economics.[3] In fact, it has become a catch-phrase solution to poverty problems, used by almost all strata of society. The greatest problem, however, is that no plan has been put forward which meets all the crucial criteria. The concept has always been dealt with in relatively broad generalities with little in the way of concrete proposals.

The *Senate Report* changed this to some degree, but in coming forward with its proposals, the Committee suggested a plan which had so many flaws that it could not be accepted by theorists or politicians, whatever their political hue.

My view has long been that no solution could be found to the dilemma of poverty without such a plan, but the plan itself must be devised in harmony with the *Income Tax Act*. The fiscal interrelationship between any plan and the *Income Tax Act* appeared to

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1 The terms have been used interchangeably and will be so used in this paper.

2 *Poverty in Canada*, A Report of the Special Senate Committee, Information Canada, (Ottawa, 1971), hereinafter referred to as the *Senate Report*.

3 Some of the more noteworthy articles include: Pechman, *How a Negative Income Tax Would Work*, (1968-69), 21 U. of Fla. L.R. 587; Tobin, Pechman and Mieszkowski, *Is a Negative Income Tax Practical?*, (1967), 77 Yale L.J. 1; Gallaway, *Negative Income Tax and the Elimination of Poverty*, (1966), 19 Nat. Tax J. 298; and the symposium on negative income tax proposals, 6 Industrial Relations, (Feb., 1967).

me to be so obvious that most of the schemes which have been put forth have to be rejected on the grounds that the proponents have forgotten the fund raising mechanism of the modern state.

The first major breakthrough, to my mind, occurred with the publication of an article by Dodge and Crowley[4] in the Canadian Tax Journal in which they proposed a specific plan in connection with Canadian needs. This plan was the starting point for the plan suggested in this article.

My suggestion is, I believe, the ultimate in simplicity. Payments would be made to every family unit in Canada based on the minimum amount necessary to meet the poverty level. This amount would be a 100% payment, made universally.

A concomitant would be that there would no longer be personal deductions for the purpose of calculating taxable income. We would have income tax paid on a family unit basis, using a proportional rather than a progressive tax, and on a much wider tax base than at present.

The benefits of such a plan are manyfold. A 100% payment to the poverty level would eliminate the need for any other welfare or social assistance payments at any level of government.

The universality would not only achieve administrative ease, but more importantly would eliminate the type of insidious practices which are now commonplace in determining whether one is "eligible" for welfare and in determining the amount of welfare a person should receive.

The universality of the plan would also mean that people in every walk of life are protected and that a middle-class executive who loses his job has immediate security, at least to the poverty level. The plan would envisage every family unit receiving a cheque on the first of every month, to do with as the members please. Thus, in an emergency, such as in the case of a lost job, one knows a cheque will be arriving, with no embarassing and time consuming application procedures.

The proportional rate of tax will lead to administrative ease in withholding taxes on a current basis while at the same time be

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[4] Crowley and Dodge, *Cost of the Guaranteed Annual Income*, (1969), 17 Can. Tax J. 395. Plans similar in approach to the one discussed in this article have been proposed in other jurisdictions. Perhaps the first proponent was Lady Juliette E. Rhys-Williams in her book, *Something to Look Forward To*, (MacDonald: London, 1943). See also the unpublished thesis of R.R. Shutz, *Transfer Payments and Income Inequality*, (University of California, 1952). For a discussion of these and other plans, see *Negative Taxes and the Poverty Problems*, (Brookings: Washington, D.C., 1967).

set at a level where there is no disincentive to work. The larger tax base will not only yield the very large amounts of money which will be needed but will also help assess more accurately the true financial state of any family unit.

It should be noted that at least two of the items which I have suggested as being required, the family unit and the enlarged tax base, were also recommendations of the Carter Royal Commission on Taxation,[5] which viewed its job, apparently, as recommending a more equitable tax system for Canada.

An analysis in some detail of each of the foregoing items is now in order.

II Amount and Timing of Payments

Under the proposed plan, the payments made to each family unit would be 100% of the amount of money required to raise the unit to the upper limit of the poverty level. Clearly, the first problem is to determine how much this is. The major difficulty is that the poverty level varies from year to year and from region to region. It is affected by inflation and by a changing notion as to what are the basic essentials of life.

We have in Canada at the present time, two sets of authoritative figures as to what the poverty level is, those of the Economic Council of Canada[6] and those — more recent figures — of the Senate Committee. The Senate Committee figures are the more generous and this may reflect both the time disparity in the publication of the two documents and a different assessment of basic needs.

Table I[7]

Family Unit Size	*Senate Poverty Line*	*E.C.C. Poverty Line*
1	$2,140	$1,894
2	$3,570	$3,157
3	$4,290	$3,788
4	$5,000	$4,420
5	$5,710	$5,051
6	$6,430	$5,051
7	$7,140	$5,051

[5] *Report of the Royal Commission on Taxation*, Queen's Printer, (Ottawa, 1967), hereinafter referred to as the *Carter Report*.

[6] Economic Council of Canada, *Fifth Annual Report*, Queen's Printer, (Ottawa).

[7] *Senate Report, op. cit.*, n. 2, at p. 8.

It is not the purpose of this article to try to determine what the poverty line is or should be in Canada. Suffice to say that these are the most recent figures available and will be appropriate for our use.

In my view, two adjustments would have to be made. The first is relatively simple. That is, an adjustment for the fluctuations in cost of living. It is obvious that we cannot have a system which lags behind inflation to any marked extent. Thus, there would have to be an automatic increase, let us say, annually, to keep the programme effective.

The second adjustment may be more difficult. It is apparent to anybody who has lived in different areas of Canada that there is a marked difference in the cost of living between regions — and indeed between urban, suburban and rural areas within a region. I would think that the proper method to handle the differential is to create a norm within one fairly large area, say Toronto or Montreal, and measure the cost of living as against that norm — not only as it relates to annual inflation, but also when the original basic grants are made. Thus, the basic grant might be proportionately smaller in a small Southern Ontario town than in Toronto, and proportionately larger in one of the Northern Ontario towns.

It is apparent that this type of adjustment must be made, but making the adjustment is merely a technical matter which can be handled by Statistics Canada.

Once the amount to be paid to each family unit has been determined, the next point to be considered is the method and timing of the payment. I would suggest that the payments be made monthly, 1/12 of the annual payment to be received by the head of the family unit on the first of every month. Thus, using Senate figures for a family unit of four, a cheque for $416.50 would arrive each month. Clearly, it is up to any individual family unit to decide what will be done with the money. Undoubtedly, in those families which are better off, the money may be banked, invested, or spent on luxuries. But in any other family, all or a portion of the money will be devoted to normal monthly expenses.

One of the great values of the system is that such creditors of a family as the landlord and the grocer will know, beyond a shadow of a doubt, how much money is being received and when it is being received — at least as regards a bare minimum sum. Thus, many of the problems of credit which the low income family has at the present time will disappear. At the same time, it means that since all families are receiving these cheques, the stigma of waiting for the welfare cheque will be non-existent.

This system opts for the view that the poor should not be told how to spend the money they receive — long a contentious issue in those circles which have considered the problem of poverty. It may be desirable that if the head of the household is irresponsible and leaves his family in a state of destitution, procedures will be available to ensure that the cheque goes to a more reliable member of the family unit; still, we will never have the spectre of the family being "cut off welfare".

One of the most appealing aspects to this proposal is that the fact that everybody receives the cheque removes the characterization of the payment as a handout, and this in turn means that no bureaucrat is in a position of exercising paternal vigilance. A valuable service might be provided in the realm of budgeting, certainly a necessity today and more of a necessity under a plan where the poor receive a genuine living allowance.

III The Family Unit

In assessing poverty lines, both the *Senate Report* and the E.C.C. *Report* based their figures on the so-called family unit. The logic of this is irrefutable. In determining needs and resources of Canadians, the family is the logical unit of measurement. The old adage that two can live more cheaply than one is not true, but two together can live more cheaply than two separately. As individuals, usually children, are added to the unit, the *per capita* cost of living decreases — obviously because of the savings involved in accommodations and volume purchasing.

By the same token, the Carter Royal Commission on Taxation adhered to the view that the family unit is also the correct measurement of income.[8] The recommendation of the Commission was based on the logic that, in normal circumstances, all the individual incomes are used for the benefit, direct or indirect, of the whole, and even one who does not work makes a type of imputed income contribution. Equity, the *Report* suggested, requires assessment on the basis of the family unit.

Thus we have a situation where, both for the realistic assessment of economic need and the realistic assessment of income, the family unit is strongly suggested as the appropriate unit of measure.

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[8] *Carter Report, op. cit.*, n. 5, vol. 1, at p. 17.

There are clearly some difficulties in assessing who is a member of the family unit, as the Federal government discovered when it considered and rejected the Carter proposal. The most obvious example is the situation where a child is away at university. Does that child become a separate family unit or is he part of the original unit? The answer must be left to specific legislation in determining what is the unit and when does a person leave the unit. Some substantial work in this area has been done in the *Carter Report,* on the income assessing side.[9]

In broad terms, I would suggest that the definition of the family unit would be those people living together, and their dependents who are resident in Canada. Within this broad definition, there would be more specific definitions dealing with particular problems.

Thus, two unrelated people who lived together would be treated as a unit though they are not related.[10] Or, a dependent who lived apart would be part of the family unit, and thus eligible for a smaller *per capita* grant than a person who lived apart and was not a dependent. Dependency would be, as now, a question of fact and statute.

Dependents who live abroad would be excluded from the unit, no matter what the proof of dependency is. This is done regretfully from a conceptual basis, but from a fiscal point of view, we could not bear a system which had Canadians supporting foreign relatives by direct governmental grants.

The test of eligibility would be taxability. Thus, if one is a resident of Canada for the purposes of taxation, or a resident dependent of such a person, that person would be treated as a member of a family unit.

It is obvious that I have sketched out only the barest bones of the family unit concept, but it should be equally clear that the concept itself is easily defined and legislated into existence.

The *Senate Report* has 1969 statistics which indicates the number of various family units in Canada.

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[9] *Ibid.,* vol. 3, at p. 117.

[10] I have made reference above to a cheque going to the head of the unit. In situations where two or more people who are unrelated by birth or marriage are living together and there clearly is no "head of the unit", I would suggest that equal cheques go to each member of the unit. Thus, each of two working women, living together, would receive a cheque equal to 50% of the payment due a family unit of two.

Table II[11]

Family Unit Size	*Number of Units*
1	1,625,000
2	1,436,000
3	961,000
4	1,008,000
5 and up	1,461,000

These figures will be satisfactory for the purpose of rough calculations in this article, but it is clear that they are not accurate within the context of my suggested scheme. For example, these figures correspond roughly to family size rather than family unit. But they do not take into account the treatment (whatever it will be) of, for example, students who are away from home. Nor do they take into account groups of two or more legally unrelated people who are living together.

Whatever the definitional problems, the family unit is the proper basis for both the measurement of economic need and the assessment of income.

IV The Tax Base

Any guaranteed annual wage which is related to the *Income Tax Act* must herald a radical reform of the tax base, for both income assessment and poverty assessment reasons. A guaranteed annual wage would require the generation of enormous amounts of revenue, and the required amounts cannot be raised on the stunted tax base we now have in Canada. The expansion of the tax base must have the following features:

1. The abolition of personal deductions.
2. The inclusion of all capital gains.
3. The inclusion of gifts and inheritances made outside the family unit as well as insurance proceeds and other accretions to wealth.
4. Imputed income on the equity value of owner occupied dwelling.

[11] *Senate Report, op. cit.*, n. 2, Appendix Table 4A, at p. 214.

5. Imputed income of some return on all savings, whether cash in the bank on what is popularly known as investments.[12]

The question of personal deductions has already been briefly canvassed. The personal deduction is a regressive method of exempting the first few thousand dollars of a family's income in order that the members might have enough to live on. The system of direct grants which has been proposed will eliminate the need for such deductions. It might be that for policy reasons, some small exemptions would be given to children to exempt such things as babysitting money or money earned delivering newspapers, but this would be a departure from the norm and equity. Conceptually, all income from the family unit, whoever earned it, would be considered with no deduction whatsoever.

Capital gains must be included in any tax base as any derogation from the treatment of capital gains as income is a major departure from tax equity, one of the key goals of the negative income tax system.

Again, gifts and inheritances transferred outside the family unit must be included in any true assessment of income. We could hardly have a situation in which a member of a single family unit was financed totally by gifts — as for instance a college student — and still declare himself to have no income. Both points two and three are merely restatements of the recommendations of the *Carter Report.*

The imputation of income of the equity value of owner occupied housing is most important. Firstly, this would remove, to a great extent, the current bias in the *Income Tax Act* against renters.[13] Secondly, it would close a loophole which would otherwise allow tax free investment. And finally in the assessment of need, it would clearly be a factor in determining a person's position vis-à-vis the poverty line. For instance, a person who owned outright a house worth $25,000, but has no cash income whatever, clearly is in need of money. But that person may not be poverty stricken. We would

[12] With the exception of doing away with personal deductions which are simply a logical feature of the Negative Income Tax scheme, the addition of imputed income, and the refusal to have an annual deemed realization of capital assets, the income base I am proposing is essentially the classic Haig-Simons definition which was adopted in great measure by the *Carter Report.* See K. LeM. Carter, *Canadian Tax Reform and Henry Simons,* (1968), 11 J. of Law and Econ. 231.

[13] Kitchen, *Imputed Rent on Owner Occupied Dwellings,* (1967), 15 Can. Tax J. 482. See also, *Carter Report,* Vol. 3, p. 48.

not require such a person to sell the house, but rather impute income to him. Thus at, say, 8%, there would be $2,000 annually of income imputed. Since this person obviously is not in further need of assistance with regard to shelter, we have a more genuine method of assessing need. Of course, the cash grant at full figures would be received each month, but there would ultimately be some tax liability, based on the imputed income. At the same time, by imputing income just on the basis of equity holdings, we are not crippling young married people who are in the process of buying a house with heavy imputed income on top of the non deductible mortgage payments.

Much of the same reasoning applies to an imputed income on savings. Normally, the amount would be perhaps 5% or the income actually received, whichever is greater.[14] This assessment would apply to all property, with perhaps some specific exemptions to reasonable amounts of personal property, probably limited to that property which is depreciable plus some small added exemptions. The problem here is that we cannot have people switching assets into valuable *objets d'art* to avoid imputation. It goes without saying that any property which carries with it imputation of income will also be property which can yield a capital gain.

Once again, we would have a situation where a person who has large holdings which give little or no return will have income imputed for both the purposes of assessing his position on the poverty scale as well as his liability for tax.

It is noteworthy that the imputation of income may have some very desirable side-effects. It would discourage speculation in non-income producing properties, such as raw land — such speculations historically having the effect of driving up prices on such a crucial consumer product as housing. Secondly, there would be strong shareholder pressure on corporations to pay out income at least to the value of imputation. A continuing problem in this country has always been the inability of the government to force companies to pay out profits to shareholders.[15] This might also give the government a new weapon in the fight against foreign control — by

[14] Thus, in the simplest case, there would be imputed income in any case where the yield on capital failed to reach the prescribed percentage. If it exceeded this percentage, there would be no imputation.

[15] Section 105 of the former *Income Tax Act* and the transitional provisions of the new *Act* are just two of the attempts made by the government to encourage a pay-out of earnings by corporations.

imputing at a higher rate on the shares of companies which do not have 51% Canadian equity ownership.

In considering the tax base, we might look briefly at the deduction side. This would be an area of pure public policy for the government. For example, would we allow deductions for charitable donations? Would we allow deductions for money laid out to gain or produce income? The answer to this is not certain because we would have claims for deductions for money laid out on what we now consider to be personal property because of the imputation of income. At the same time, there are legitimate deductions which are taken under the present *Act* which should be continued.

One area of importance which might be considered here is the whole question of pension plans. My view is that pension plans, including the Canada and Quebec Pension Plans could be continued on a voluntary basis. But contributions to these should be on a tax-paid dollar basis rather than a tax free dollar basis as at present. Encouragement might be given, if it were thought desirable, by imputing income in connection with such savings at a lower rate than other types of savings. But in a system where everyone has a guaranteed minimum wage, there would be no justification for allowing the funding of such plans on a tax-deductible basis along with the very important deferment of taxes which we presently have.

There are undoubtedly great administrative problems inherent in any plan which required extensive imputation of income, but the problems must be overcome to create a viable system. The policy questions are rather more easy, and simply require a decision at the top levels of government, decisions which will in all likelihood be based on political and fiscal rather than conceptual grounds.

V Proportional Rate

For many years, critics of the existing tax system have suggested that there is no reason for the progressive tax other than a soak-the-rich notion. Put a little more elegantly, in their classic study of the subject, Blum and Kalven suggest that there is no rational reason why Western nations have adopted a progressive tax, other than an attempt to redistribute wealth.[16] Even this rationale fails

[16] Blum and Kalven, *The Uneasy Case for Progressive Taxation,* (U. of Chicago Press, 1953). One might also look at A. Kenneth Eaton's classic Canadian article on personal income tax, *Essays in Taxation,* Canadian Tax Foundation, (1966), particularly his comments on proportional taxation at p. 25.

when we realize that redistribution has not occurred because we have never had a proper tax base upon which to apply the progressive tax.

Under the system proposed in this article, we have done away with the two major stumbling blocks. By definition, under this plan we are achieving a massive redistribution, and therefore the classic notion of redistribution by progressivity becomes an anachronism. We have also proposed a proper tax base upon which to apply the tax rate, and therefore each person in the community is bearing tax at a true and proper rate, namely, his share of the cost of government.

The proportional tax, bearing in mind the lack of personal deductions, also leads to great administrative ease, especially when viewed from the vantage point of an employer withholding taxes or a professional paying his quarterly tax bill. For those who do not prepay taxes in any way, it also gives them a fairly accurate view of what their tax bill will be on the basis of any given receipt.

My view would be that rates would be varied according to government expenditures. Thus, the rate would be determined by an analysis of the tax base and governmental expenditures. Some suggested rates on the basis of 1969 figures will be suggested below.[17]

VI Corporations

My basic view is that there is no need for any massive change in corporate taxation. Most of the radical changes which I have proposed will be implemented at the personal level.

There are, however, some adjustments which must be made. Firstly, I would suggest that within certain limits, imputed taxation would be applied to corporate investments not used directly in generating "active business income" within the present meaning of the term.[18] Thus, we would not apply imputed income to the losses or low yield of a manufacturing company which was under-

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[17] Throughout this article, I have attempted to use 1969 figures as these are the latest figures available covering both revenue and expenditures.

[18] This term is admittedly vague, but it is used in several places throughout the new *Income Tax Act*, and we will soon have some judicial interpretation of the scope of it.

going difficult times, but we would apply the concept to the holding which represented non-active business income.[19]

Secondly, we would do away with the low or split rate for small corporations. In my view, such corporations must get aid in the form of direct government grants, which are subject to public and parliamentary scrutiny, and not through the all embracing and unselective system which we presently have. A concomitant would also be that the selected rate for corporations be at all times equal to, or greater than, the personal rate.

Finally, we would have to steel ourselves to the fact that there would be double taxation of dividends. It would be unthinkable that we would create a class of income which would bear tax at a lower rate than other forms, especially when this class of income is concentrated most highly in the upper income groups of the country.

The treatment given to other entities, such as partnerships, trusts, non-resident individuals and corporations which are taxable would be questions of policy, but would be determined bearing in mind the fact that we would not wish to allow situations where there could be substantial avoidance of tax at the selected rate.

VII Cost of the Proposal

The two bugaboos which have up to now most often presented serious consideration of a guaranteed income plan have been cost and the disincentive to work. On the latter point, it is my view that as long as the rate of tax applied is under 50%, there is no disincentive effect. While there will always be isolated cases where individuals will take advantage of the system, most experts agree that until rates reach confiscatory levels, people will work when there is an opportunity to work.

It is my view, unsupportable except by "gut reaction", that there would be no serious problem about people working under this scheme, but there will be much more peace of mind in knowing that the necessities of life will be provided even if there are layoffs, large scale unemployment or other reasons for not working. Studies of the disincentive effect of high taxation have been flawed

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19 For example, a manufacturing company which had $2,000,000 of capital assets used in manufacturing would have no imputed income on this capital. But if it also held $1,000,000 in corporate securities, an imputed yield would be mandatory. This is analagous, in some ways, to the proposed tax on ineligible investments under the new *Income Tax Act.*

by the very small groups surveyed, but those studies which have been done support the position I have put forward.[20]

The more crucial issue here is cost. The annual cost of such a plan, using the Senate Committee family units as a guide, which as I have pointed out, would be slightly inaccurate under my formulation, would be as follows:

Table III[21]

Family Unit Size	*E.C.C. Poverty Line*	*Senate Poverty Line*
1.0	$ 3,077,750,000	$ 3,477,500,000
2.0	4,533,452,000	5,090,820,000
3.0	3,640,268,000	4,122,690,000
4.0	4,455,360,000	5,040,000,000
6.2	7,743,300,000	9,642,600,000
	$23,450,130,000	$27,373,610,000

Now these are staggering figures when one considers that total Federal Budgetary expenditure in 1969 was, including old age security payments, just a little over 12 billion dollars. How is the money to be raised?

Firstly, let us look at the savings envisioned at the federal level alone.[22]

Family and youth allowances	$ 612,600,000
Old Age, Blind, etc. pensions	8,400,000
Canada Assistance Plan	257,900,000
*C.A.P. Opting-out grant, Quebec	150,000,000
*Indian and Eskimo direct welfare	75,000,000
*Retraining Living costs	75,000,000
Veterans Pensions	222,300,000
*Conditional Provincial grants re welfare other than opting out programs	276,500,000
	$1,677,700,000

[20] Barlow, *The Effects of Income Taxation on Work Choices*, Study No. 4 for the Carter Commission, Queen's Printer, (Ottawa, 1967).

[21] Table 3 has been constructed from data taken from the *Senate Report*. The family unit of 6.2 is the figure given by the *Report* as the averages size of all families containing 5 or more persons.

[22] These figures have been taken from the figures available in *The National Finances*, Canadian Tax Foundation (1970-71). Those figures marked* are estimates of the amount of overall allocations made to fund some particular programme of which a portion goes directly for the support of individuals. For instance, I have made an estimate with regard to the manpower retrain-

I have not included in this figure amounts for Canada Pension Plan, Old Age Security Fund payments and Unemployment Insurance figures because, in normal times, special taxes levied and earmarked for these programmes roughly equal the amounts paid out from them.[23] Of course, in times of high unemployment, for instance, general revenues may be called upon to supplement amounts in the Unemployment Insurance Fund.

Without looking at the provincial side of the picture, we have a saving at the federal level of about 1.6 billion dollars plus a return, in a sense, to the public of the moneys paid into the three special programmes mentioned. In my view these three special programmes need not be maintained on a compulsory basis, though the Canada Pension Plan could be continued on the basis referred to previously in this paper.

If, as I suggest, we are only to reform the personal side, an elimination of personal and estate taxes would have, in 1969, cost the government about 3.5 billion dollars. Therefore, our overall programme must raise the amounts listed in Table 3 above, plus roughly two billion dollars in added revenue. In other words, if we were to apply the E.C.C. poverty line, personal taxation must raise approximately 25 billion dollars, and if we were to apply the Senate figures, we would have to raise about $30 billion.[24]

What is the revenue potential of our proposed tax base? I must hasten to say here that much of the estimate must be guesswork, though I suggest educated guesswork.

Total personal declared revenue before deductions was approximately $46.5 billion.[25] To this must be added the amounts

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ing programme of the amount which goes to support the families during the retraining period as opposed to the amount which goes to the actual retraining itself.

[23] If the overall scheme were implemented, the government could, I believe, without too much soul searching, convert the money in these plans to general usage, because the amount of the payments under the proposed system is greater than the benefits available under any of the individual plans. These moneys could fund the first month or two of direct payments until withholding taxes started to flow in, which could be used for the continuing payments.

[24] I am conscious of ignoring the provincial and municipal side of the coin. I would hope that insofar as money is saved at these levels, there would be a reduction of retail sales taxes, certainly the most regressive taxes in our present revenue system.

[25] *Taxation Statistics*, Information Canada, (1971), covering the 1969 taxation year.

which were not declared, as for instance those amounts under $250 received by wives who did not file returns and those amounts under $950 received by dependent children who did not file returns.

Full taxation of capital gains would apparently yield about $800,000,000 though I personally feel this is a low figure.

In 1969-1970, the 7,514 taxable estates had a net value of more than one billion dollars.[26] We should bear in mind that in this period, more than 150,000 Canadians died. The total value of their estates must have reached a billion dollars. If we then consider that insurance proceeds payable to living beneficiaries are not part of the taxable estate, and clearly would be under our proposed tax base, we could add even substantially more to the estimate of the yield from the passing of estates.

Where we have no figures to go by, but must work on a purely speculative basis, is the value of investments and equity in owner occupied homes. Bearing in mind that we are counting in as revenue the investments held by corporations, the figure might run into the hundreds of billions of dollars.

For instance, in 1969, declared bond interest, bank interest and dividends and dividends alone on personal tax returns reached over two billion dollars.[27] If we assume that the average of all these yielded a 4% return, we come to the conclusion that 50 billion dollars capital was personally held.[28] If we added to this the enormous amount of capital held by corporations plus the addition to the capital base of property which produces no revenue and therefore cannot be identified even roughly by the above method, such as raw land, jewelry and precious gems, antiques, paintings and so forth, a figure of $150 billion does not seem out of line.[29]

There are, unfortunately, no recent statistics whatever which might allow a genuine estimate of the equity value of owner occupied housing in Canada. I suggest for the sake of argument a

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[26] *Ibid.*

[27] *Ibid.*

[28] In my view, a 4% yield is probably a gross understatement, given the propensity of companies to pay out a relatively small part of their annual earnings to shareholders.

[29] I am aware that I have lumped together here, corporate and individual holdings, though we are talking here about personal taxation. However, imputation of income on the corporate side at rates at least equal to individual rates, will make the corporation tax yield much higher, and thus reduce the amount which must be raised on the personal side.

figure of $50 billion, on the assumption that affluence and inflation have sharply increased owner equity values since 1966.[30]

I therefore suggest that we have a base of capital assets of, very conservatively, $200 billion. If we were to apply imputed income to this figure of 5% *per annum* for capital and 8% for housing, we would add to the tax base about $11.5 billion. We would deduct from this the amount of revenue actually generated, in 1969, the aforementioned $2 billion, which gives us a net addition to the tax base of $9.5 billion. Thus, I suggest that in realistic terms we have a tax base of about $60 billion.

The next step is to supply a rate of tax. If we were to use the figures of the Senate, we would have to raise about $30 billion, and therefore the rate would be about 50%. If we were to use the E.C.C. figures, which would require the raising of $25 billion, the rate would be roughly 42%.

VIII Conclusion

This article has been written with one goal in mind - to stimulate debate on the topic of a negative income tax. The system which I have proposed has some very clearly defined virtues. I suggest that it is the ideal system for the recipient in that it removes the stigma of poverty and welfare and provides each unit with a steady flow of income which is not dependent upon external conditions. It lends itself to a more equitable system of taxation in that there is a radical reform of the tax base along the lines most tax theorists view as appropriate and equitable. At the same time, it takes into account imputed income of the person who by other standards might be considered to be in poverty, and gives us a more genuine assessment of his economic income as opposed to the cash flow.

There are several desirable by-products of the system, some of which have been discussed and some of which have not. For instance, it should stimulate the economy by putting cash into the hands of those who spend a very high percentage of their

[30] Kitchen, in his article, *op. cit.*, n. 13, assumes a 1966 figure of about $42 billion. Harvey E. Brazer, *Review of the Report*, (1967), 15 Can. Tax J. 273, estimates a revenue yield under Carter recommendations of $400-500 million *per annum.* Using $50 billion as a base, and imputing 8% as income and applying a flat rate of tax of 50%, we would have a yield of about $2 billion. When the results of the 1971 census are available, much more precise figures could be calculated.

income, and remove income from many who put their savings into unproductive use.

It may be that few parents see the shortcomings of their offspring, but this certainly is not the case here. There are two major stumbling blocks: The first is administrative - and I am tempted to say, merely administrative - for it is my view that any administrative roadblock can be overcome if a government is determined to do so.

The second is a question of cost: On the analysis side, I am the first to admit that there is a large amount of pure guesswork in this article when it comes to the estimate of the capital base for the imputation of tax. I would hope that this glaring weakness will be taken by my critics as an invitation to do detailed work in an effort to refute my estimates. It would be beneficial to the country as a whole to have the accurate figures which I have so boldly estimated in order to make a genuine assessment of the feasibility of the plan.

The more perceptive will realize, however, that the accuracy of my estimates, where guesswork has been substituted for data, does not change the challenge which the system throws out. More accurate figures will merely refine the rough edges and produce more exact estimates of governmental savings under such a plan, a more precise assessment of the number of family units, a more precise estimate of the monetary needs of family units in disparate parts of Canada, and a more precise estimate of the rate of tax to be applied. I invite critics as well as friends to involve themselves in data accumulation in the hope that ultimately all the necessary facts will be available to the decision makers of our country.

Ultimately the challenge is this: are we simply going to talk about the problems of poverty or are we going to do something about them? We might as well recognize right now that any successful attack upon the problems of poverty will take amounts of money which are beyond present fiscal comprehension. But any plan which does not have the elements I have described in this system will only be a stop-gap measure and will not remove the continuing problem of poverty in our society.