But will it sell in Ottawa?

Is there a chance that serious consideration will be given to adopting dividend deductibility as the method of taxing business corporations in Canada? Originally adopted in 1940 as a war-time expediency to collect corporate taxes, double taxation had become accepted as the status quo by the time of the 1971 tax reform legislation.

The problem is that for too long successive governments have persuaded themselves that the tax treatment they have provided for Registered Retirement Savings Plans ("RRSPs") is already so favourable that they need not make available any form of dividend tax credit for the corporate tax already paid; and that they also felt justified in taxing all accumulated savings when withdrawn at the normal rate of income tax.

In the 1920s limited liability companies became taxed at a "corporate rate". By 1940, corporate tax was levied on the net earnings left in the company after interest on corporate debt had been deducted. Dividends were issued as taxable income out of earnings already taxed and needed dividend tax credits to compensate for double taxation. Tax credits are inexplicable to the average investor and destroy any hope of clarity and simplicity. Why such a

cumbersome and inflexible corporate tax structure has been kept unamended for 70 years is a puzzle. But it has suited successive governments.

It is the lack of transparency in the existing corporate tax structure that has appealed to governments for so long. Because pension funds and RRSPs are not taxed on their direct income, investors have assumed that dividend income is also tax-free. It is not. No government has actively misled the investor, but nor has any government made it clear that a corporate tax (roughly 25%) has been already paid. Yet "taxable investor" refers to an investor whose dividend income is entitled to a tax credit compensating for the corporate tax already paid. Pension funds and RRSPs are referred to as "tax-free", which means that the interest on Government bonds and other debt income is not taxed. Dividend income is not taxed as it accrues to savings portfolios but is not entitled to any form of compensation for the corporate tax already paid. **A corporate tax should be a tax on corporate earnings, not a clandestine method of taxing pension funds and RRSPs**.

The amount of corporate taxes paid annually by pension funds and RRSPs in this indirect fashion is enormous. However, so far, governments have shown no willingness to give up any part of this loot to provide savers with

improved retirement benefits. Politicians and civil servants are alright. They enjoy a pension which, adjusted for inflation, is funded out of the public purse. Meanwhile, the imbalance of values in terms of privileges and monetary awards attributed to elite groups over those working to provide the goods and services consumed by Canadians has become increasingly apparent, together with an awareness of a widening of income levels separating rich from poor. This is a dangerous trend.

The period from 1971 to 2008 was a period of relatively high interest rates. Tax-free interest on debt compounding in registered savings plans was a realistic incentive to save. At the millennium, there was a brief period when pension fund managers could invest in businesses by purchasing units of the income trust that owned the business in which earnings flowed through to the unit holder without suffering a corporate tax until the government summarily shut the income trusts down. The opportunity to adopt dividend deductibility was ignored.

Then came the recession of 2008, followed by a decade of low rates of interest and the recovery of the stock market to new highs. Personal and corporate debt increased, while ten-year bonds yielded an approximate real rate of interest of only 1% (3% less 2% inflation).

By 1960 it was becoming clear that an era of significant advances in science and technology was under way. In the 1990s the internet was revolutionizing communications, while today Alan Turing's concept of an intelligent machine is a reality. The use of artificial intelligence is spreading from industry to industry. The robots are coming and will be erasing more and more jobs. Nothing will stop the onrush. So at one end of the scale, Canadians are worrying about their standard of living in retirement; at the other, students leaving schools and universities are worrying about their prospects of finding rewarding work. Corporations and the way they are taxed will be forced to adapt to the changes that automation and a wide range of scientific advances are bringing to the workplace.

Given a global trade war, climate change, the rising sea level, over-population in Africa, Trump in America, Brexit in the UK, widespread political and social unrest, and both liberal democracy and conservatism under attack from all sides, it has become more and more certain that the future is becoming more and more uncertain.

To amplify these uncertainties, opinions differ about the effect of robots on the job market. Millions of jobs will be displaced but some pundits predict that artificial intelligence will improve productivity and create more jobs than ever, albeit at the cost of significant disruption in the workplace, with robots swiftly replacing positions in accounting firms, factories, as well as secretarial roles and cashier work.

It should not be surprising that possibilities of a four-day work week are being discussed, or that experiments in formulating a universal basic income as a simple social safety net are taking place. Economists are arguing over what the optimal flat rate of income tax is that will still allow for effective incentives to work harder. Solutions of a fundamental simplicity are exactly what we need; tax treatments that are clear and plain to everybody.

A government has imperatives and it must have priorities. An adequate retirement income for Canadians is an imperative but it is not at all clear what priority it gets in Ottawa, if any. How important is the need to encourage saving now against retirement in the future? Political parties tend to think in terms of a four-year horizon and their priorities tend to be of a short-term nature. A lack of savings now could have disastrous long-term

consequences. An effective savings policy is needed, together with a government that feels a fiduciary responsibility to give priority to the well-being of retired Canadians.

The Government maintains that to extend the dividend tax credit to RRSPs and pension funds, while representing a significant benefit, would entail too big a fiscal cost. Pension funds and RRSPs have never been tax-free. Nor should they be. No Canadian government can afford to offer a completely tax-free savings policy, but it needs to be able to provide as strong a tax incentive as possible to encourage investors to purchase shares in companies which will increase in asset value.

Canada needs a corporate tax levied only on earnings retained in the corporation quite separate from a direct income tax levied on profits dividended out to shareholders. RRSPs and pension funds should be directly taxed on dividend income at a rate of tax specific to savings portfolios, a tax low enough to provide an incentive to save and capable of alteration from time to time in response to changing economic conditions. Under the present system, if the government wants to provide investors with

a tax incentive to invest in savings by lowering the income tax on dividends in RRSPs and pension funds, it has to lower the rate of corporate tax.

This paper does not argue that the overall level of taxation in Canada is too high. That may be the case, but it is not the point. This paper argues that business corporations of all sorts are the essential economic structures on which the future prosperity of Canada will be built and that the way corporations and dividends are taxed is of extreme importance; that the present system of taxing corporations and dividends is illogical, favouring debt holders over shareholders; that it is costly to administer, unnecessarily complex, inflexible and completely lacking in transparency and clarity. Above all, it argues that simplicity is always more efficient and economical than complexity and can only be attained by adopting dividend deductibility.

Canada may have fared better than most countries, but there is much to worry about. During the past decade, savings portfolios had the benefit of tax-free interest on debt securities when rates were at an all-time low, while dividend income suffered a 25% indirect tax as stock markets rose to an all-time high; not much help for Canadians attempting to maximize the asset value of their RRSPs in a period of economic uncertainty. The ability to

reduce the tax on dividend income would provide an opportune incentive to invest in savings plans.

A decade of declining inflation, low interest rates and rising stock markets appears to have left investors in a mood of great uncertainty and anxiety. The growing trade war is creating a feeling that another recession must be due. We seem to be in a period when the western democracies are in a mess. Even the long established British and U.S. constitutions are in disarray. Interest rates are so low that central banks have lost their ammunition to fight the next recession when it comes. Democracies are showing signs of decaying into one-party states, and governments of becoming made up of self-serving elites intent on enhancing their own position to the detriment of a middle class that feels left out in the race for riches.

The only reason for maintaining double taxation I have come across is that it has been the status quo since at least 1971. The dictionary defines "status quo" as "unchanged position". It is often used as an excuse for not making a change. The older the position the more venerable the excuse. Double

taxation is almost 90 years old, but given its manifold flaws, treating it as an axiom, or a truth universally acknowledged, is ridiculous.

So Canada faces a future that may contain an extended period of exceptionally low rates of interest, and many economic uncertainties. Unless the level of interest rates rises significantly, the benefit of tax-free debt interest will provide little incentive to save and invest in RRSPs. The ability to provide tax incentives to encourage investment in the shares of companies with expectations of growth in asset value and increasing dividends can only be accomplished under dividend deductibility.
Among the items on page one listed as long-term issues are: the increase of consumer indebtedness, a growing proportion of the population retiring, the dire investment performance of pension funds, and the widespread fear that retirement benefits will prove inadequate. These are all a function of a total lack of a well-defined effective policy to encourage the growth of savings in Canada.