Taxation in Canada

In my personal opinion, the current Liberal government's rumoured plan to increase the capital gains tax can be expected to hammer another nail in the coffin for Canadian investments, particularly at a time when our economic outlook is already relatively weak.

Based on combined federal and provincial tax rates, personal taxation has already reached a maximum level of 53% of taxable incomes. At half this rate, the capital gains tax is now 26.5% in most of Canada. If that were the only tax, it would already confiscate over half the income of Canada's successful entrepreneurs as well as the persistent savers, who more than pay their way in society and amass the very money that finances existing and new jobs. These are among the most creative and productive people in our economy, and they are already Canada's highest tax payers. They also pay a materially higher income tax rate than they would if they had chosen to work and live elsewhere. On top of that, should they achieve a gain, when they sell the business they built, they pay capital gains tax at 26.5%.

But is it really at a 26.5% rate? The answer is no because this rate, if I were to sell my company, becomes a far higher <u>real</u> rate. Let me explain: I started my company in 1955 when a cup of coffee cost 5¢ - 10¢, not the $2.00 to $3.50 today, depending on the restaurant. Say I sold it now at a hypothetical price of $100,000, my true cost would need to be multiplied by some 8 times to adjust the cost to real value in today's dollars. Had I invested $8,000, my cost in today's dollars would not be $8,000 but $64,000; however, under current rules no inflationary adjustment is allowed. Had I invested $12,500, I would have, in fact, NO capital gain in real purchasing value, yet pay $23,187 in capital gains tax, and so incur this as a <u>real</u> loss in today's dollars on the transaction. Clearly, the <u>real</u> tax ratio is well above 26.5% of the <u>real</u> gain. In fact it is taxing a <u>real</u> loss.

I do not object to paying 25% of any short-term (one year) capital gain, but when it comes to gains which include a tax on inflation that occurred over long periods of time, it means severe injury to whatever real gain has been earned. The fair thing would be to establish inflation factors to determine real gains rather than nominal gains, and base a real tax on a real gain. This is an easy exercise today with computers that can calculate instantly for any transaction for which you know the cost date. If the Liberal government raises the capital gains tax rate on long term 'profit', it would be an even greater injustice to purchasing power, de facto confiscation. Taxing gains over long periods at the same rate as for an "in and out in three months" investor seems unreasonable as does taxing a real loss after adjustment for inflation.

As I never belonged to a Canadian political party in the 67 years that I have been paying taxes in Canada, I have no axe to grind. As a believer that we must look after the less fortunate in our society, I believe in a level of taxation that is fair. I do not believe for a moment though that someone who earns $200,000 pre-tax in Canada is rich. On the other hand, I believe that top executives, working for a corporation which they did not create, receiving compensation 200 times the average pay in their company, are by far overpaid. On the other hand, those who build a corporation from scratch and toil years and years (10 years until my company earned $100,000 in 1965 or say $656,470 in today's money), when they succeed rather than fail, are fully entitled to the real income on their shares. They have enhanced the Canadian economy, as I did from nothing, and provided major employment. Taxing nominal gains not adjusted for inflation at 26.5% is confiscatory.

I call on the government to practise ethical fairness ahead of buying votes and discouraging the current and future builders of this nation's wealth.

I would like to add, as a last point, that income tax and the counterproductive capital –and inflation– gains tax are by no means the only money that detracts from building a stronger economy in Canada. We have real estate and school taxes for which we only partly obtain value. We also, in Quebec, have a 15% sales tax on almost everything we buy, including services. We have gasoline, liquor and many other specific taxes, mostly hidden from view. We also have largely unpunished corruption, which is another cost.

Isn't it time to examine taxation from the point of view of good governance and what is ethically correct? Should we not look to improve the structures of our democracy and reduce vote buying as well as the influence of special interests? However, let's begin by making long-term capital gains taxes on <u>real</u> gains — not a tax on nominal inflation gains! To be fair this tax should only apply to short-term speculative gains and not on the book value cost of many years ago, which should in all fairness and ethics be adjusted to the equivalent real cost today.

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