A Significant Question

Let us assume for the time being that the tax exemption laws will not be extended beyond April of next year. What will follow? Most of the builders who have not actually begun operations will practically discontinue building and all vacant apartments will be filled quickly due to the natural increase in population, etc. Pre-tax exemption conditions will again prevail with tenants sharply competing with each other as before for vacant apartments, with a decided increase in rents.

And so we go around and around in an uneconomic circle, as it were. We do not seem to comprehend the logic of events by which like causes bring about like effects.

Would it not be the height of wisdom to encourage an industry on which prosperity so largely depends, and which will provide decent homes at a fair rental for our inhabitants, and can it be more encouraged than by continuing to exempt buildings from taxation?

VI

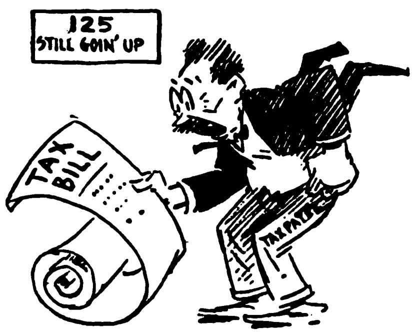
THE SALES TAX IN CANADA

By H. ARCHIBALD HARRIS, C. P. A.

(Tax Counsellor for the Illinois and Indiana Bankers' Associations)

[A full and complete account by Mr. Harris, of the operation of the Canadian Sales Tax Law will be found in the American Review of Reviews for December 1923.—EDITOR]

Anticipating that a strong effort will be made to pass a sales tax law in the United States, I made a three month's trip through the Dominion of Canada, accompanied by the economic writer Mr. W. B. Swindell. I interviewed virtually every class of citizens which Canada possesses, from the boys who shined our shoes up to ministers of the different departments and heads of the big industrial concerns.



—From The Chicago Daily News.

Is the Canadian Tax Simple?

One of the main contentions for the sales tax in the United States has been that it is simple. If the views of dozens of citizens in different classes of enterprise may be taken as a basis for judging the simplicity of this tax we may say with absolute positiveness that

Sales Tax in Canada Big Disappointment

BY R. N. McCORMICK
Ass't Manager, Tariff Department, Canadian Manufacturers' Association.

(From "The Manufacturers News," Chicago, March 22, 1924)

"We have been experimenting for over three years with one form of sales tax. The Government has scrapped that form, and we now have another form which is called a sales tax, and yet it is not a measure which bears very much resemblance to most of the forms of sales tax we hear discussed. If the authorities decide that this one is not to their satisfaction, there are several other varieties of the genus sales tax that may be tried. But we sincerely hope and trust that the Government will find it possible to abandon this method of raising money.

* * *

"It has been found necessary by the Department to make many concessions, due to the fact that the strict application of the law is not feasible. The sales tax, as we have it now in Canada is not a sound system of taxation. If a manufacturer is selling his product on long term credit, he has, nevertheless, if his commodity is taxable, to pay the Government 6 per cent on his sales at the time of the sale, though he may not receive any return for his goods for six months, nine months or twelve months.

"There is also the manufacturer selling to a retailer on a taxable article, having to account for 6 per cent on $100. The manufacturer selling through the wholesaler, or the wholesale trade, will only have to account, if the discount if 20 per cent, for 6 per cent on $80. At once the manufacturer selling to the retailer is at a disadvantage.

"These taxes have increased the cost of living in Canada. Building costs, manufacturing costs, cost of equipping factories, etc., have been raised accordingly. It has discouraged expansion and checked immigration. Take the case of a farmer settling on land out on the prairie. He has to pay a tax of 6 per cent on all material he uses in the erection of his house, his barn, and his granary, on his implements and harness, his household equipment and furniture, his clothing, and on certain of his foods, before he receives any return from his crops.

"We believe that the tax, as a method of raising revenue, is economically unsound because it cannot be established without gross discrimination.

* * *

"Manufacturers are in a quandary as to the return of the tax to the Government; it is a very unsatisfactory situation. I think that any country which is considering other forms of taxation, should very, very carefully consider the effect of a sales tax before embarking on such a form of raising revenue. In the countries where it has been investigated, it has usually been decided that it is the last resort for raising revenue."

it is not simple. No taxpayers in the world can be more loyal or patriotic than the Canadians. But, it was no hard matter finding a great many in every kind of work who could not understand the workings of the sales tax. There are in the manufacturing, wholesale and retail groups men who have lost thousands and industries which have lost tens of thousands by their inability to handle this tax as intended by the Government.

Is the Tax Painless?

Another claim for the Canadian sales tax which has been still more widely made is that the tax is painless; in fact it has been pointed out in a great many speeches and articles as the painless tax.

Altogether we interviewed several hundred people in Canada. There were three out of all that number who thought the tax was painless. One was a small boy on the outskirts of Windsor, Ontario, another was a farmer's wife in the same locality and the third was an attorney in the Gaspe Peninsula. Farmers in the western territories of Canada say that the sales tax is not painless. They say the fact that an anesthetic is given when a limb removed does not alter the fact that the limb is lost nor does it relieve the pain which follows. So it is, they say, with the sales tax in Canada. Just because the final consumer does not always have this tax listed and shown to him on the price of his invoice is no reason why he should think that he is paying no tax. He can see that tax in the increase and price of his goods. The so-called painlessness of the Canadian tax is causing the taxpayer about 40% more in taxes than would be necessary if the tax were simply added on to the price which the consumer finally pays instead of being put on the sales price of the manufacturer, wholesaler and jobber.

WHAT ELSE CAN WE TIE TO HIS TAIL?

—Morris for the George Matthew Adams Service

Now I do not wish to give the impression that I found nothing but bad in the Canadian tax system. It has some wonderfully good points. For one thing, it is payable monthly. This takes the burden off the financial centers, eases up the strain on the banks and works beneficially many ways. It is a known fact that it is easier for a man to make monthly payments than to make yearly payments. It is so easy to slip a month or two and when the time for final payment comes around it is very hard to meet it. Another good feature of the Canadian sales tax is the fact that it is payable to the banks as well as to Customs Officials. Of course banks are centrally located and can forward payments on in to the Government with very little trouble. This I consider a wise bit of tax administration.

Taxes Well Administered

Further it must be said that Canada's way of administering her taxes might teach us a great deal. As commissioners of taxation she has the honorable Mr. R. R. Farrow and R. W. Breadner. Mr. Farrow handles the administration of customs and excise under which the sales tax is administered. Mr. Breadner administers the income tax. Both men are veterans in tariff and tax work for the Government. They know the quips and turns of the tax game which new political appointees would slide over without seeing. From one end of Canada to the other we heard nothing but praise for the desire of these officials to assist the taxpayer. As one who is somewhat experienced in tax matters I think it impossible to overestimate the value of having as tax administratives men who inspire confidence in the public and who give consideration to the citizen. This one thing in Canadian taxation is enough to account for many millions in revenue. Taxpayers do not mind paying taxes when they feel they are getting "an even break."

Sales Tax Neither Painless, Simple Nor Popular

There is much to be said for the Canadian tax system and against it. I would prefer not to inject my own personal views into the question. I would be content with the statement that the tax has some good administrative features but that it is neither painless, simple nor popular.

VII

WHAT SHALL WE TAX—EARNED OR UNEARNED INCOMES?

By HARRY GUNNISON BROWN
(Professor of Economics, University of Missouri)

(Delivered at the banquet given by the Manufacturers and Merchants Federal Tax League in the Congress Hotel on Friday Evening, November 9.)

I have been asked to talk to you a little while on the subject: "What shall we tax—earned or unearned incomes?" It is my opinion that we ought to rely more and more largely for meeting the reasonably necessary expenses of government, upon the sorts of income which I am going to class as unearned. This, of course, does not mean that I am committed to the view that earned incomes can for a long time be entirely relieved—if they ever can be so relieved—of all taxa-