

Want to fix the economy? Start by fixing our tax system

For most Canadians, April is the time of year when frustration and anger over our convoluted, loophole-ridden tax system is at its highest.

For those looking for tax relief this year, there's not much hope. On the contrary, Canadians got hit with several tax hikes earlier this month, including payroll tax increases and an increase to the carbon tax levied on gas and home heating fuel.

Those hoping for simpler, easier-to-fill-out forms will also be disappointed. With each passing year, the tax system gets more complicated, with new forms and new layers of tax credits for everyone from remote workers to families who add a second living unit to their home.

Everyone knows the tax system is broken and needs to be fixed, but nothing ever gets done to make it simpler, fairer and easier.

Over the years Canada's personal income tax code has swelled in size and gotten more complex with thousands of mind-boggling passages like the following:

?Subsection 18.1(10) applies where (a) a taxpayer's particular right to receive production to which a matchable expenditure (other than an expenditure no portion of which would, if this section were read without reference to subsections 18.1(7) and 18.1(10), be deductible under subsection 18.1(3) in computing the taxpayer's income) relates has expired or the taxpayer has disposed of all of the right (otherwise than in a disposition to which subsection 87(1) or 88(1) applies).?

As the example above shows, the current tax system is far too tangled to ever unknot. It needs to be scrapped and replaced with something far less complicated.

In terms of personal income, I would create a dead-simple, black-and-white income tax formula with a clear progression in tax rates. Like the current system, those making more would pay more. The main difference, however, is there would be no loopholes or write-offs, and the tax rates would be much lower for the majority of Canadians.

Come tax filing time, to figure out how much you owe, all you would need are two numbers ? the tax rate for your income bracket and the exact amount of income you earned.

The end result of this proposed reform is that our personal income tax system would be straightforward, clear-cut and easy to understand. Most Canadians would pay less. And because of the elimination of all exemptions, loopholes and write-offs, the very rich would end up paying more.

I would further overhaul the tax system by undertaking a number of other major reforms.

The most important of these would apply to small businesses, the main drivers of economic prosperity and job creation in Canada. I propose completely eliminating corporate income tax for small businesses with fewer than 300 employees.

For large and medium-sized companies with more than 300 employees, I would replace the current corporate income tax with a corporate sales tax and eliminate all deductions, tax credits and exemptions. The new tax rate would be somewhere between two to eight percent and would be applied only on annual sales.

The one guiding principle with all of these tax reforms is simplify, simplify, simplify.

The proposed reforms, if enacted, would also make our tax system fairer. Instead of doling out breaks to the rich and other special interests, the system would provide badly needed tax relief to the average working Canadian and small businesses.

If we want to get our economy firing on all cylinders, we need to first fix our tax system.

To learn more about how we can improve Canada's economy and increase living standards, email me at info@economiccharter.ca.