

## THE INCOME TAX

In a work of this character it is advisable to consider briefly current modes of raising revenue. The Single Tax has special advantages as a fiscal method, but its advocates consider that the least of its recommendations. Indeed, the revolutionary, economic and social change Single Taxers advocate is the abolition of all taxes. The change, however, is to be brought about through the taxing machinery now in operation. For this reason it is desirable to consider the disadvantages of existing methods of taxation which it is proposed to abolish. First let us consider the Income Tax. This tax is historically a new tax. It is the hardest to get rid of because the most just, considered merely as a revenue method. No country which has adopted it has ever abandoned it.

The Income Tax is advocated on the "ability to pay" principle. But so, too, is the General Property Tax. Both kinds of taxation work to the detriment of the community. It must therefore be that the principle itself is unsound. The true maxim of taxation is that every citizen should pay in proportion to benefits received. This removes both the Income Tax and the General Property Tax from the kinds of taxes to which no sound objection can be offered.

If the Income Tax be justified, as it sometimes is, on the ground that the rich exploit the poor and that therefore a counteracting system is desirable by which the poor can exploit the rich, it is sufficient to say that justice demands the end of all exploitation.

A tax exempting incomes below a certain fixed sum intensifies the effect which all such taxes have, of operating as fines upon industry. Its effect is precisely the same as discrimination in railroad rates in favor of certain localities to the disadvantage of competing centres. Such railroad discriminations as, for

example, enable farmers at distances to transport their wheat more cheaply than farmers nearer to the market, result not solely to the disadvantage of individuals, but, what is not so clearly apparent, in the actual destruction of wealth. Its effects are positive as well as relative.

Its operations may be illustrated in another way. If the United States imposed high taxes on incomes, and Canada imposed none, and all other things were equal, the Canadian manufacturers and merchants would have an advantage in both Canadian and American markets. Its effects as between competing individuals is the same as between competing countries. A discriminating Income Tax is a tax in favor of some men as against others. It puts some merchants and some manufacturers at a disadvantage in competition with others.

Two farmers working on adjoining half sections of equally good land and using the same amount of capital, may show vastly disproportionate incomes based on widely varying abilities.

In England the Income Tax yields a large revenue; yet the organized opposition to it is strong and active. Such opposition is based rather upon the necessarily inquisitorial mode of its assessment and collection than upon the broader considerations which condemn it. And the objections are strong against a system which calls for the merchant's and broker's ledger and private accounts, the amount of profit on sales, and the sum of borrowed capital, as the price of exemption from excessive overcharge. And when these business secrets are laid before surveyor and commissioners who are fellow-townsmen—perhaps actual rivals in business—the embarrassing nature of such investigation can better be imagined than described.

It has been repeatedly proposed to exempt what has been called "precarious incomes" by those who have realized the injustice and impolicy of taxing all incomes—even so-called industrial incomes—equally, without reference to the source whence they are derived. But for practical consideration, as subjects of legislation, stable and precarious incomes would cease to be matters of distinction. Some incomes are more precarious than others, but under such a law they would mul-

tively rapidly in the tax returns, and stable incomes would grow exceedingly scarce.

The ingenuity of man has been at infinite pains to improve the parts of an intricate machinery of taxation unsound in the principles of its construction. The mode of assessing and collecting the tax is in itself no ordinary mode of machinery for fiscal purposes; and for guarding against failure or fraud the experience of nearly fifty years has given England a system which extorts admiration, but under which, nevertheless, failure and fraud continue. One of the reports of the Inland Commissioners says: "The claims to compensation which have arisen out of a recent extensive demolition of houses in a certain district by the Metropolitan Board of Works have given the usual evidence of the frauds which prevail under Schedule D."—*i.e.*, the schedule under which industrial incomes are taxed on a basis of self-assessment. These local compensation claims seldom fail to reveal the existence of wholesale frauds in the tax returns.

In whatever way the Income Tax is assessed, inequality must result. To assess by arbitrary estimate is taxation by blackmail; to base assessment on returns of the payer is to leave the truth-teller helpless and at the mercy of the liar. It is either taxation by guesswork or taxation by spies.

That the operation of the Income Tax is inequitable even where longest in vogue is abundantly proved. A committee of inquiry in England reported that there was a substantial amount of fraud and evasion. The Right Hon. C. T. Richie said that it was a matter of common knowledge that evasions of the Income Tax payable under Schedule D. (which includes professional and business incomes) were of frequent occurrence. Prussia avoids much of this evasion by a well-developed spy system in connection with its Income Tax administration, but more democratically governed countries would scarcely tolerate such a system.

To persons of a deficient comprehension of public morality, the Income Tax seems a justifiable method of getting something out of the rich man's coffers. To persons who take predatory views of taxation, the question as to what right the public has

with the rich man's wealth will seem like the query of an idiot. And yet, if there is such a thing as national or public morality, it is an extremely pertinent question.

The objections against an Income Tax may be thus summed up:

In its theory (as a mode of encouraging a more equitable distribution of wealth), fallacious.

In its discrimination, unjust and impolitic.

In its operation, unequal.

In its practice, inquisitorial and corruptive.

The reasons which appear to justify an Income Tax arise from a superficial analysis of the social problem—from that superficiality which concerns itself with the flowering effects rather than with the causes at the root.—EDITOR.