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GAAR OR GAAR LITE: WHAT DID PARLIAMENT REALLY REALLY WANT?¹

David H. Sohmer

The challenge facing a court when interpreting the provisions of a statute was succinctly described by U.S. Supreme Court Justice Felix Frankfurter as follows:

Our problem is not what do ordinary English words mean, but what did Congress mean them to mean.²

In the case of *Canada Trustco Mortgage Co. v. R.*,³ the Supreme Court of Canada provided the following guidelines for determining what Parliament meant the words of the GAAR to mean.

The interpretation of a statutory provision must be made according to a textual, contextual and purposive analysis to find a meaning that is harmonious with the Act as a whole. When the words of a provision are precise and unequivocal, the ordinary meaning of the words play a dominant role in the interpretive process. On the other hand, where the words can support more than one reasonable mean-

ing, the ordinary meaning of the words plays a lesser role.⁴ . . .

This [the GAAR] is a broadly drafted provision, intended to negate arrangements that would be permissible under a literal interpretation of other provisions of the *Income Tax Act*, on the basis that they amount to abusive tax avoidance. To the extent that the GAAR constitutes a "provision to the contrary" as discussed in *Shell* (at para. 45), the Duke of Westminster principle and the emphasis on textual interpretation may be attenuated.⁵

A superficial reading of the *Canada Trustco* guidelines suggests that Parliament may mean the words of a provision to have one meaning when the GAAR is not invoked and another meaning when the GAAR is invoked. It also suggests that by using imprecise and ambiguous words Parliament may be better able to ensure that its purpose in enacting a provision will not be defeated. The Court's message was obviously more subtle and the key to understanding the judgment may well be found in the following statement by the Court:

⁴ *Ibid.*, at para. 10.

⁵ *Supra*, note 3 at para. 13.

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¹ Spice Girls, Wannabe lyrics: "So tell me what you want, what you really really want".

² *Commissioner of Internal Revenue v. Acker*, 361 U.S. 87 (1959) at p. 95.

³ *Canada Trustco Mortgage Co. v. R.*, [2005] 5 C.T.C. 215, 2005 D.T.C. 5523 (S.C.C.).

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The GAAR was enacted in 1988, principally in response to *Stubart Investments Ltd. v. R.*, [1984] 1 S.C.R. 536 (S.C.C.), which rejected a literal approach to interpreting the Act. At the same time, the Court rejected the business purpose test, which would have restricted tax reduction to transactions with a real business purpose. Instead of the business purpose test, the Court proposed guidelines to limit unacceptable tax avoidance arrangements. Parliament deemed the decision in *Stubart* an inadequate response to the problem and enacted the GAAR.⁶

After providing interpretive guidelines which rejected a general business purpose test but elevated the importance of compliance with "object and spirit", Mr. Justice Estey stated as follows in *Stubart*:

These interpretive guidelines, modest though they may be, and which fall well short of the *bona fide* business purpose test advanced by the respondent, are in my view appropriate to reduce the action and reaction endlessly produced by complex, specific tax measures aimed at sophisticated business practices, and the inevitable, professionally-guided and equally specialized taxpayer reaction.⁷ (emphasis added)

⁶ *Supra*, note 3 at para. 14.

It is important to note that when the GAAR was enacted in 1988 it was unlikely that Parliament was sufficiently prescient to foresee the evolution in the Supreme Court's approach to the interpretation of fiscal statutes which culminated in the 1999 decision in *Shell Canada*.⁸ The Court's approach in the 1980s has been described as follows:

Indeed, the tax cases subsequent to *Stubart* in the 1980s — *The Queen v. Golden et al.*, *The Queen v. Bronfman Trust*, *The Queen v. McClurg*, and *Corporation Notre-Dame de Bon Secours v. Communauté Urbaine de Québec et al.* — taken with the *Stubart* decision itself suggested three things: first, that the Supreme Court would take a primarily contextual or purposive approach to the interpretation of provisions of the Act; second, that the Court would not consider itself bound to the legal form of a taxpayer's transactions in the interpretation of provisions of the Act and/or in the characterization of the legal relationships relevant to a taxpayer's appeal; and third, that in tax avoidance cases, the fairness of the result could be a relevant factor in the adjudication of the appeal.

None of these positions survived the development of the Supreme Court's thinking in the mid-to-late 1990s as described above. What occurred in the 15 years after the *Stubart* decision can be described as a non-linear development of the Supreme Court's approach to tax-avoidance cases based on some of the principles enunciated in *Stubart* and a gradual letting go of certain other of those principles.⁹

The General Anti-Avoidance Rule was first proposed in a white paper on tax reform issued on June

- 7 *Stubart Investments Ltd. v. R.*, [1984] 1 S.C.R. 536, [1984] C.T.C. 294, 84 D.T.C. 6305 at para. 66.
- 8 *Shell Canada Ltd. v. R.*, [1999] 4 C.T.C. 313, 99 D.T.C. 5669 (S.C.C.).
- 9 Roger Taylor, *The Supreme Court of Canada: Principles of Adjudication of Tax-Avoidance Appeals from Stubart to Shell Canada*, 1999 Conference Report, Report of Proceedings of the Fifty-First Tax Conference, page 17:1 at page 17:7 and 8. It is interesting to compare Taylor's version with the following version by Brian Arnold which implies that the Supreme Court's thinking in the mid-to-late 1990s actually developed in the 1980s (*i.e.* before the enactment of the GAAR) thereby establishing a causal connection: "The Supreme Court has rejected a business purpose test, rejected any reference to economic realities or economic substance, and insisted on a strict adherence to the legal form of transactions. Further the court has refused to apply the purposive approach to the interpretation of tax statutes. As a result, Parliament did the only thing that was left for it to do, given its concern about abusive tax avoidance: in 1987, it introduced a statutory anti-avoidance rule. In my view, the courts should interpret and apply GAAR in that context, in accordance with Parliament's intention." (emphasis added): *The Future of GAAR*, 2005 Conference Report, Report of Proceedings of the Fifty-Seventh Tax Conference, 4:1 at 4:2.

18th, 1987.¹⁰ The Tax Reform documents accompanying the white paper contained the following statement:

The government believes that the existing provisions of the Income Tax Act are inadequate to deal with a number of blatant tax avoidance arrangements. . . . The government is convinced that a change in direction is required to reduce what was succinctly described by the Supreme Court of Canada in the *Stuart* case as the "... action and reaction endlessly produced by complex, specific tax measures aimed at sophisticated business practices, and the inevitable, professionally-guided and equally specialized taxpayer reaction."¹¹

The failure to disclose that the Supreme Court thought that the *Stuart* guidelines were appropriate to reduce unacceptable tax avoidance arrangements indicates that the functionaries at the Department of Finance may have been overly-zealous in advising the Minister. It is an incontrovertible fact that the functionaries were dissatisfied with *Stuart* primarily because of its rejection of a general business purpose test, a net that would catch much more than blatant tax avoidance.¹² David Dodge, the then Senior Assistant Deputy Minister, Department of Finance, made the following comment with respect to *Stuart*:

... most important, *Stuart*, ... rejected the general application of the business purpose test and did not comment on the application of the step transaction doctrine in Canada.¹³

Allan Short, the then General Director, Legislation, Department of Finance, testified as follows to the House of Commons Standing Committee on Finance and Economic Affairs:

What we are attempting to do is by legislation ensure that the business purpose test which really is the same in the United States as in the United Kingdom will apply so that a transaction that has no purpose other than a tax avoidance purpose will not be recognized.¹⁴

The first version of the proposed General Anti-Avoidance Rule was contained in the June 18th, 1987 white paper on tax reform. It introduced a statutory business purpose test as well as a statutory concept of step transaction. The relevant provisions were as follows:

245.(1) Notwithstanding any other provision of this Act, where a transaction is an avoidance transaction, the income, taxable income, tax payable or other amount payable of or refundable to any person under this Act shall be determined as is reasonable in the circumstances ignoring the transaction.

(2) An avoidance transaction includes:

(a) any transaction that results in a significant reduction, avoidance, deferral or refund of tax or other amounts payable under this Act, unless the transaction may reasonably be considered to have been carried out primarily for *bona fide* business purposes; or

(b) any transaction that is part of a series of transactions or events, which series results in a significant reduction, avoidance, deferral or refund of tax or other amount payable under this Act, unless the transaction may reasonably be considered to have been carried out primarily for *bona fide* business purposes.¹⁵

The private sector as well as committees of the House of Commons and the Senate unanimously

10 Canada, Department of Finance, *Tax Reform 1987: Income Tax Reform* (Ottawa), June 18, 1987.

11 See David M. Sherman, *Department of Finance Technical Notes, 19th Edition* (Toronto: Thomson Carswell, 2007), at p. 245.

12 Wilson J. stated in *Stuart* that if the Minister is entitled to ignore a transaction on the sole ground that it had no business purpose "then a massive inroad is made into Lord Tomlin's dictum that 'Every man is entitled if he can to order his affairs so that the tax attaching under the appropriate Acts is less than it would otherwise be': *IRC v. Duke of Westminster* (*supra*), at 19. Indeed, it seems to me that the business purpose test is a complete rejection of Lord Tomlin's principle": *supra*, note 7 at para. 71.

13 David A. Dodge, *A New and More Coherent Approach to Tax Avoidance*, (1988) 36 *Can. Tax J.* 1 at 18. Dodge also stated that a less important justification for the GAAR was that "... notwithstanding the approach proposed in *Stuart*, certain subsequent cases have suggested that the rule of strict interpretation has not completely disappeared" (p. 17). This is consistent with Roger Taylor's version of the Supreme Court's approach to tax avoidance in the 1980s, *supra*, note 9).

14 Canada, House of Commons, The Standing Committee on Finance and Economic Affairs, *Report on the White Paper on Tax Reform (Stage 1)* (Ottawa: Queen's Printer, November 1987) 122, as quoted in David A. Ward, *Tax Avoidance: Other Jurisdictions 1987 Conference Reports*, 8:1 at 8:15.

15 *Supra*, note 10 at pp. 143-144.

criticized the proposed rule, and in response, a revised version was issued on December 16th, 1987.¹⁶ This version included an exemption for transactions that did not involve misuse or abuse and replaced the business purpose test with a non-tax purpose test. It was not materially different from the current version of the GAAR.

It is clear that Parliament regarded the business purpose test as too blunt an instrument to attack "a number of blatant tax avoidance arrangements" that might slip through the judicial anti-avoidance net. Given the fact that the predominant interpretive approach at the time was contextual and purposive, the focus of Parliament could only have been on provisions which did not reflect object and spirit because they "were not written down properly". What Parliament wanted was a statutory rectification remedy that would permit the drafting to be effectively corrected so as to reflect its real intention.¹⁷ This is why the Supreme Court in *Canada Trustco* stated that the GAAR was intended to negate arrangements that would be permissible under a literal interpretation. Furthermore, just as a plaintiff seeking rectification is charged with the burden of establishing by means of clear and convincing evidence that the real intention of the parties will be defeated if the remedy is not granted,¹⁸ the Minister, when invoking the GAAR, is charged with the burden of establishing by means of clear and convincing evidence and argument that the real intention of Parliament will be defeated if the remedy is not granted. This is what the Supreme Court meant when it stated that "if the existence of abusive tax avoidance is unclear, the benefit of the doubt goes to the taxpayer".¹⁹

16 Canada Department Finance, *Supplementary Information Relating to Tax Reform Measures* (Ottawa, December 1987), at pp. 146-148.

17 "Rectification is predicated on the existence of a prior oral contract whose terms are definite and ascertainable. The plaintiff must establish that the terms agreed to orally were not written down properly. . . . The court's task in a rectification case is corrective, not speculative": *Performance Industries Ltd. v. Sylvan Lake Golf & Tennis Club Ltd.*, [2002] 1 S.C.R. 678 at para. 31.

18 *Juliar v. Canada* (Attorney General), [2000] 2 C.T.C. 464, 99 D.T.C. 5743 (Ont. S.C.J.), at para. 33, affirmed [2001] 4 C.T.C. 45, 2000 D.T.C. 6589 (Ont. C.A.). See also *Bank of Montreal v. Vancouver Professional Soccer Ltd.* (1987), 15 B.C.L.R. (2d) 34 (B.C. C.A.), at pp. 36-37, and see generally, David H. Sohmer, "Standard of Proof in GAAR cases: Part I", in *The Canadian Taxpayer*, Vol. xxviii, no. 1, p. 1.

19 *Supra*, note 3 at para. 66.

Some may argue that the Supreme Court's interpretation of the GAAR has transformed it into a GAAR Lite. Given the historical context, however, a GAAR Lite is what Parliament really really wanted.

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POTENTIAL BUDGET PROBLEMS FOR FLAHERTY

In the past few years, Canadians have gotten used to the federal government generating huge surpluses, and tax cuts rather than tax increases were the order of the day. As recently as last October's economic statement, all was viewed as being rosy in Ottawa and the Finance Minister opened the doors to the fiscal bank with huge tax cuts.

Six months ago, the conventional political reasoning was that big cuts either in the economic statement or the budget would put the Liberals behind the eight ball and make it difficult for them to defeat a "popular" budget. But times have changed and the upcoming Conservative budget looks to be one which will be fraught with both political and economic pitfalls.

The data to the end of November still indicated a healthy position:

For the first eight months of the 2007-08 fiscal year, the budgetary surplus is estimated at \$6.7 billion, down \$0.2 billion from the \$6.9-billion surplus reported in the same period of 2006-07. Budgetary revenues increased by \$7.5 billion, or 5.1 per cent, reflecting growth in nearly all revenue streams, particularly corporate income tax and other revenues. The results to date include the cost of personal income tax relief measures introduced in the October 30, 2007, Economic Statement pertaining to the January to November 2007 period, totalling \$2.7 billion. These measures consist of the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to \$9,600, both effective January 1, 2007. Program expenses were up \$7.9 billion, or 6.7

per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down \$0.2 billion.¹

While many of the problems are not of the government's making, most notably the sub-prime fiasco in the United States, it also appears that the planning which went into the November offering took little account of what was happening. It is also fairly clear that there isn't much the government could have done to keep a lid on the Canadian dollar's value *vis à vis* the greenback. But by November the dollar had been rising for months, with the concomitant problems for the Canadian export industry.

When Dave Dodge delivered his economic update in late January he announced that while Canada would avoid a recession, the forecast for GDP growth was being cut. This of course ultimately translates into lower tax revenues and will have to be factored into the numbers for 2008/09.

It is in this atmosphere that the budget has to be put together. Surely some in government must be wondering whether from an economic and fiscal point of view they have shot themselves in the foot with the huge retroactive income tax cuts and, more important, the GST cut. The latter need not have been done as of January 1, 2008 as the Conservatives only promised the cut "before the end of their first term". Six billion dollars in reduced revenue must be giving Mr. Flaherty second thoughts, at least with regard to the timing. And, we might note, sales tax decreases never resonate with voters in the same way as do income tax cuts.

The government has already taken a number of steps to dampen taxpayer expectations for the upcoming budget. In his year-end interviews, the Prime Minister more or less told listeners that there would be no more cuts. A month or so later, Mr. Flaherty felt that he had to explicitly say that there was no danger of falling back into deficit, an assertion which never should have had to be made.

The problem is that so much has already been committed by way of tax cuts made in October (when GDP projections for 2008 were substantially higher than today) that the matter may certainly be out of Mr. Flaherty's control. We have no doubt that when the budget is unveiled, it will contain all the assumptions necessary to show that there will be a very modest surplus. Finance departments are always able to produce good projections.

But if the spill-over effects from the U.S. economic problems continue or worsen and the result is reduced business revenue and/or the softening of the job market in Canada, the result may be that we will be faced with a deficit situation.

Of course, the pundits argue that one thing the October largesse did was to ensure that if the government were defeated, there would not be enough money in the coffers for the Liberals to offer ameliorating programs. If this is a sign of a politically brilliant tactic, spare us. What these same pundits don't seem to see is that as a result of the Chrétien/Martin years, the general perception is that the Liberals are the party which can deal with the economy best.

That view could change if Flaherty dodges the deficit bullet but if that were to happen, it might be the time for the Tories to forget their ideology and their political legerdemain and work on an economic program which is best for the country.

Stéphane Dion might have been politically inept when he suggested last October that perhaps the GST cut should not be implemented. Putting his ineptitude aside, he was probably right. But as we all know, just because a politician is right doesn't mean he will be successful.

We'll see how all this plays out in the next six week or so but keep an eye on the assumptions made in the budget document which lead to a modest surplus. Over the longer haul of the 2008-09 fiscal year that will be the key issue.

¹ The Fiscal Monitor (November): see <http://www.fin.gc.ca/news08/08-006e.html>.

THE RISKS OF DELEGATION

Stephen Harper, for whatever reason, seems to like the idea of delegating the study of controversial issues to supposedly neutral third parties. Traditionally this approach (Royal Commissions writ small) allows the Prime Minister more wiggle room and potentially offers him an "out" from various positions he had originally taken. He did this by asking David Johnston to set the parameters for a public inquiry into the Mulroney/Schreiber affair, but in the event, the first and possibly most damaging phase will still be carried on by the Commons Ethics Committee.

He did the same thing when he appointed what has inevitably come to be known as the Manley Committee to look into Canada's continuing role in Afghanistan, a situation where Harper's oft-stated position clashed dramatically with that of all three opposition parties.

The decision in both cases seems to us to be at odds with his control-freak management style. . . and it may well be that in retrospect he will have some regrets about letting loose the control strings.

The terms of reference to Manley gave four options. However, if the Prime Minister was expecting a blank cheque to remain in Afghanistan under the current configuration, Manley delivered a surprise with a report that rejected each of the options and applies more than a little bit of pressure on Harper. And because Manley was the Prime Minister's handpicked choice to lead the panel, Harper will have little alternative but to listen.

In essence, Manley and his Committee are taking the position that Canada should end its combat role if NATO does not step forward to beef up support on the ground.¹ So far, NATO countries have been less than enthusiastic. The report suggests that if this doesn't happen, the government should remove Canada from the field. Moreover, Harper needs to show the way with a more consistent policy approach and the government must purchase more helicopters and drones for the mission.

¹ See the report at http://independent-panel-independant.ca/pdf/Afghan_Report_web_e.pdf.

"To put things bluntly, governments from the start of Canada's Afghan involvement have failed to communicate with Canadians with balance and candour about the reasons for Canadian involvement or about the risks, difficulties and expected results of that involvement," writes the panel.

It's a straight-talking assessment from a group that was expected by some who are not familiar with the members of the panel to deliver a whitewash intended to embarrass Liberal Leader Stéphane Dion. Instead, the report gives a clear view of everything that is wrong with the current situation and presents it without the sentimental claptrap we see so often in the media.

Mr. Manley has probably done the Prime Minister a favour by supplying him with some weapons to make his case with NATO. Members of the alliance who aren't heavily invested in Afghanistan will be reading Manley's report carefully because of what it might mean for their own troops and NATO generally.

If Harper were to vigorously pursue Mr. Manley's recommendations, it could leave NATO members with a difficult choice. A pullout by Canada would clearly be noticed by countries such as the Netherlands, which is in similar difficulties in the province of Uruzgan, and it might pull out as well. And if a threatened Canadian departure starts the dominoes falling, NATO members just might conclude that it's better to find 1,000 troops to help Canada than to allow for serious questions to be raised about what NATO is good for.

The timing of any Parliamentary debate remains to be seen. As we write, the thinking seems to be a choice of either before the NATO meetings in Bucharest where Harper will make his pitch for help. . . or after the Bucharest meeting but before the House rises for the summer. And with the economic problems pushing Afghanistan off the front pages in late January, there will likely be little pressure.

The major question is whether Stephen Harper will be Prime Minister by that time and, if so, whether he will lead a minority government or whether he will have the seats to push through his vision despite opposition doubts.

RRSP PROPERTY TRANSFERS

As the contribution limits to RRSPs have crept up over the years (\$19,000 for 2007) many individuals have found it more and more difficult to get the funds to make annual contributions. While our readers who are involved in tax planning will likely be well aware of the following, we felt that it might be useful to remind clients about such options.

One approach is to borrow the funds to make the contribution and pay down at least a portion of the loan out of the associated tax refund. While there is nothing wrong with this strategy, it does take a certain amount of self-discipline to ensure the loan is repaid as quickly as possible. This is important because the interest on the loan is not deductible.

Another possibility is to make a transfer of capital property held personally to the RRSP. Where such a transfer is made, the RRSP contribution is equal to the fair market value of the property in question. And while this may be an attractive option for many, there are a number of key points to bear in mind.

- The property must be such as to be eligible to be held by RRSPs. This is seldom a problem but if what you are considering contributing is not a "normal" investment, check that it is okay. For example, some foreign bonds will qualify while others will not.
- If the property has appreciated since you acquired it, there will be a capital gain on the transfer.
- If the property has dropped in value since you acquired it, there will be no deduction for the capital loss.

Of course, when you are making such a transfer you also have to keep in mind overall tax and investment strategy. While there is no tax on an RRSP, when payments come out they are added to income, even if they might otherwise have been subject to preferential tax treatment if the investment were personally held.

As a generality, you may want to limit capital contributions to an RRSP to assets which do not pay dividends (as you will lose the value of the

dividend tax credit), assets which are likely to produce capital gains (as the full gain will ultimately be taxed) and assets which have flow-through tax credits which will be wasted in the RRSP.

Thus, when you do make a transfer of assets to an RRSP, you should carefully assess the investment attractions of the asset to determine whether they are better off being held outside the plan.

We might note that for those who may be flush with cash, you can legally buy assets from your RRSP. Let's say that you feel that a particular asset which is held in the plan has significant new capital gains potential. You can buy the asset for fair market value, thus taking it out of the plan, and put it into your personal portfolio where the tax-associated benefits may be maximized. Given that the RRSP is tax free, the fact that the asset may have appreciated significantly since the RRSP acquired it will not trigger a taxable gain within the plan.

None of these planning tips are new or unique but given the pitfalls which might apply depending on the particulars of the case, some expert advice is suggested to make certain there are no unpleasant surprises down the line.

FLAT TAX REVISITED

There was a time (remember Peter Pocklington) when amongst economic conservatives a flat rate tax was one of the economic ideas which had significant currency. Since then, the idea had not been given much prominence. While it is true that Alberta has adopted the flat tax, there are many who feel that it has not been a rousing success. Even if one accepts the Alberta model as being well within normal parameters, the fact that it has been enacted in a province which has comparatively little reliance on personal income taxes for revenues is a factor.

All that having been said, the Canadian Taxpayers Federation¹ has published a study which calls for a two-tier tax regime, stating up front that it views this as a step towards a flat tax.

¹ An organization with which this newsletter, despite its name (we had it first) has no connection.

The following is an abbreviated version of the executive summary of the paper:

Taxes in Canada are complex, relatively high, and create significant economic distortions by maintaining high marginal income tax rates and too many boutique credits and deductions. This alternative model replaces the federal tax system's four personal income tax rates and the tax code's numerous credits and deductions with two tax rates and a small number of universal exemptions. This reform will make work more rewarding, reduce compliance costs, and lower the income tax burden on Canadians.

The Canadian Taxpayers Federation (CTF) recommends the federal government move to a single tax rate on all income. As a first step, we suggest Canada adopt two federal income tax rates of 15 per cent and 25 per cent on income above \$80,000. (Emphasis in the original)

- Under the model proposed here by the CTF all individuals earning \$15,000 or less will not pay any federal income tax. Income over \$9,600 is currently subject to federal income tax under Ottawa's existing tax system.
- In the CTF model, the basic and spousal exemptions are each \$15,000 and there is also a per child amount of \$2,200. As such, two-parent families with two kids will not pay any federal income tax until their combined income exceeds approximately \$34,400. Today, this household is subject to tax on income over \$23,200. A single parent with three children will pay no federal tax on the household's first \$21,600 of income. Federal tax is currently applied to this family's income above \$15,600.
- To ensure low- and moderate-income senior citizens pay no additional income tax the CTF model includes an age credit. Had this credit been eliminated, the tax burden on a taxpayer 65 years of age or older, with an income of \$20,000, would have increased by more than \$200, even with our generous \$15,000 basic exemption. Together, the basic exemption and age credit in this reform proposal is equivalent to the value of the basic exemption, age credit and pension income credit found in the existing system.

- In the CTF model, approximately 1.4 million low-income Canadians will no longer pay any income tax to Ottawa. Every category of taxpayers – one-earner and two-earner households, married people with or without children, unattached singles with or without children, and seniors – representing 30 million Canadians, will pay less income tax or the same amount.
- Approximately 90 per cent of Canadian individuals earn an annual income under \$80,000, meaning even under the CTF two rate model the vast majority of taxpayers will pay a single rate. Our eventual goal, of course, is for all taxpayers to pay one low single tax rate.

.....

The C.D. Howe Institute conducted an independent analysis of this plan's fiscal impact on government revenues and its affordability by 2012. The think tank also calculated the positive tax relief generated on family households that result from adopting two income tax rates while eliminating many tax deductions and credits. (emphasis in the original.)

This report addresses personal income tax reform by proposing a path for the federal government to implement an income tax regime with only two rates while maintaining only a handful of deductions like RRSP, spousal and child allowances. Our goal is to lower the personal income tax burden in a manner that improves the Canadian economy.²

The initial reaction of the government was "muted" to say the least. The immediate party line is that with the economy in turmoil, this is not the time to start a debate on tax reform. We might remind readers that before they came to power, many of the Alliance/Reform members of Parliament were closely aligned with the Canadian Taxpayers Federation. The CTF will get a respectful hearing from the incumbent government but normally being in power changes perspectives and whatever the merits of the paper, we don't expect changes to the system.

But anything which stimulates informed debate is welcome.

² The full report is worth reading from a tax policy perspective and is found at http://www.taxpayer.com/pdf/flat_tax_2008.pdf.