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Vern Krishna debunks two tax myths



VERN KRISHNA | December 4, 2013 6:45 AM ET
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The Canada Revenue Agency might refer to taxpayers as 'clients,' but Vern Krishna warns the the agency is not your friend

Photo: Drew Hasselback/National Post

Winter is here, which means that tax filing season will soon be upon us. We must gather up our information slips, receipts, and other important bits of paper to prepare for the tax collector.

We should also dispel two lingering myths about the tax system. We want to debunk myths, which develop from ignorance of the facts or, sometimes, from propaganda, and can be expensive.

Myth # 1: “The federal income tax is unconstitutional”

The “[Detaxers](#)” group, which promotes this myth, causes serious harm to individuals who subscribe to this nonsensical theory. Nothing could be further from the truth.

The Constitution divides the authority to impose taxes between the federal and provincial governments. The federal Parliament has the power to raise money by any mode or system of taxation. The provinces can also impose income taxes but are restricted to direct taxation within the province for the purpose of raising revenue for provincial purposes. This division of the taxing power gives the federal government a substantial voice over the national economy and the distribution of wealth amongst the provinces.

The Supreme Court [confirmed the division of taxing powers in 1950](#). The court clearly recognized the powers of the two levels of government to tax within their constitutional mandates:

“... Parliament can legislate only on the subject matters referred to it by section 91 and that each Province can legislate

exclusively on the subject matters referred to it by section 92. The country is entitled to insist that legislation adopted under section 91 should be passed exclusively by the Parliament of Canada in the same way as the people of each province are entitled to insist that legislation concerning the matters enumerated in section 92 should come exclusively from their respective legislatures.”

The dual authority to levy income taxes results in differential income tax burdens in the country. The top income tax rate in Nova Scotia and Ontario, for example, is substantially higher (50%) than the burden in Alberta (39%). That, however, is the price of federalism.

The rationale for limiting provincial legislatures to direct taxation is to contain provincial powers within their jurisdictional boundaries. [John Stuart Mill stated](#) the difference between direct and indirect taxes as follows: “A direct tax is one which is demanded from the very persons who it is intended or desired should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another; such as the excise or customs.”

Mill’s definition is narrow and ignores economic consequences. Indeed, the question as to who actually bears the burden of any tax (the “incidence of taxation”) is one of the more unsettled economic issues of our time. Nevertheless, it is a useful myth for the division of powers between the federal and provincial governments.

Myth # 2: The Canada Revenue Agency is your friend and exists to help you

The CRA promotes this propaganda by referring to taxpayers as “[clients](#).”

This ignores that the sole role of the tax collector is to collect taxes and nothing more or less. It has always been so. We have dramatic illustrations of this role from the English Peasants Revolt (1381) against the poll tax on all males and females over the age of 15. The hostilities started with the attack on Cressing Temple in Essex. [David Hume captures](#) the drama of the event in his History of England: “The first disorder was raised by a blacksmith in a village of Essex. The tax-gatherers came to this man’s shop while he was at work; and they demanded payment for his daughter, who he asserted to be below the age assigned by the statute. One of these fellows offered to produce a very indecent proof to the contrary, and at the same time laid hold of the maid: which the father resenting, immediately knocked out the ruffian’s brains with his hammer.”

Taxpayers who believe that they can refuse to file income tax returns by declaring the income tax laws unconstitutional will not find the CRA very friendly. Delinquent taxpayers face late filing penalties, fines, and, in flagrant cases, criminal sanctions.

In the end, taxpayers are liable for their constitutionally imposed taxes.

As [Lord Bramwell said](#): “Like mothers, taxes are often misunderstood, but seldom forgotten.”

Myths that develop out of deliberate ignorance of the law or from political postures of convenience are ultimately expensive.