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From *Canadian Business Online*, April 22, 2010

**Taxes**

# A tax return the size of a postcard

The case for a flat tax.

By [Larry MacDonald](#)

Larry MacDonald is a former economist who now manages his own portfolio and writes on investment topics. He is the author of several business books, including corporate biographies of Nortel and Bombardier. His column appears every second Thursday. Read Larry's [Investment Ideas](#) blog here.

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Daniel Mitchell, a senior fellow at the Washington-based Cato Institute, has a beef with tax returns. Filing tax returns is a “misery” that takes a lot of time and effort because tax laws are “hopelessly complicated,” he says.

The complexity arises not only from the bewildering array of exemptions, deductions and credits. Each year, there are also changes to the tax laws, as well as court rulings on tax issues.

Because of the complexity, the incidence of taxable events becomes, at least in part, a matter of how well the taxpayer or their tax adviser knows the tax code, amendments and rulings. Some taxpayers end up paying less tax than others in the same circumstances. In short, as complexity grows, it increasingly offsets the intent of a progressive tax system.

The cost is substantial too. Thousands of tax advisers are hired at great cost to guide their clients through the labyrinth. On the other side of the fence, thousands of auditors and screeners are positioned to ensure compliance.

To many observers, it seems a rather wasteful allocation of resources to have these legions pitted against each other. A Fraser Institute [report](#) notes that Canadians spend up to \$30 billion a year complying with the federal and provincial tax systems.

Imagine, then, a tax return the size of a postcard. It takes just minutes to fill out. There aren't a plethora of exemptions, credits and deductions. Nor are there a stream of changes due to legislative amendments and court verdicts. There is a just a tax levied as a uniform percentage on income.

This system, known as the flat tax, currently exists in nearly three dozen jurisdictions around the world, including Hong Kong, Jamaica, Russia, Mauritius and Belize. The [other places](#) are listed in a [table](#) published by Alvin Rabushka, a senior fellow at the Hoover Institution in Stanford, California.

Economists say a flat tax rate has the advantage of reducing disincentives to work, save, and be productive. Industrious and resourceful persons are not increasingly penalized for striving to earn more income — a byproduct of which is a more competitive economy, the creation of businesses/jobs, and higher living standards.

A flat-tax system should lead to fewer suboptimal investment decisions, as noted in this [blog post](#). People lured by the tax breaks under the present system often take their eyes off sound investing practices and make riverboat gambles with their money. A prime example, many investors report, is the debacle of Labor Sponsored Investment

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Perhaps the biggest problem faced by the flat-tax system is opposition from special interest groups. They don't want a flat tax because it means no loopholes, shelters or special preferences to exploit.

Everyone who benefits from the current system — financial advisers, accountants, tax bureaucrats, politicians and lobbyists — will fight to keep flat taxes off the agenda. But if we get angry enough, anything is possible, says Cato's Mitchell.

It is interesting to note that after the Soviet Union collapsed, most of the member republics opted for the flat-tax system. Starting anew without any vested interests standing in the way, they were able to choose according to the merits of each system.

As the first few republics moved to implement flat taxes, it was contagious throughout the rest of the former Soviet Union. "One country after another enacted flat taxes to maintain competitiveness with neighboring countries to attract both foreign and domestic investment," claims Mr. Rabushka.

Now it appears neighbouring countries in western Europe are feeling the pressure to switch to flat taxes. If you dislike the drudgery, costs, inefficiencies and inequities of our current tax system, you might pray for the flat-tax movement to keep on snowballing — right across the Atlantic.

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