

Tax Myths and Tax Schemes - Don't get Fooled

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Playing on the need, greed and biases of people, flavoured with mystery and occult information, has always been the recipe of con-men and charlatans. One area where innocent people are often taken advantage of, frequently resulting in financial ruin, is Income Taxation. A great proportion of people find themselves under, (un)avoidable, financial pressure and seek relief. This pressure combines with psychological human flaws – particularly the flaws that cause us to take things for granted and discount the value of benefits long enjoyed – to cause some to leash out at income taxes. This search for relief is often rewarded by great-sounding but wrong/misleading financial and tax advice that promises or proposes to reduce your tax burdens to low or nil values, or to get you a refund of taxes already paid (plus other promises of relief from the perceived tax burdens).

More frequently Canadians are falling prey to scammers who exploit human weakness for their own gains. These include the many donation-tax schemes, detaxer or free-man-on-the-land arguments, expense deduction schemes, and the like. The good advice given by Polonius in William Shakespeare's Hamlet - "This above all: to thine own self be true" – is good advice for a taxpayer. Know yourself – know that you, being human, can have your reason undermined by greed, need, and the promise of mystery and secret knowledge. If it sounds too good to be true – it most often is not true. This, not just because it sounds 'bad', is true: (1) income taxes are constitutional; (2) there are no secret ways that the rich pay little or no tax; and (3) tax applies to legal and natural persons.

Before I briefly explore the three myths I mentioned, I have to say that (in Canada) there are certain kinds of receipts that are not subject to income tax, some kinds of receipts that are taxed at lower rates, and some valid 'tax-avoidance' strategies that can lower your tax burden. These topics, however, are for another time.

1. Income Taxes are unconstitutional

Despite some constitutional limits on taxing powers, Income taxes are constitutional to both federal and provincial governments. The Federal Parliament is empowered to raise money "by any Mode or System of Taxation", while the Provincial Legislatures have the power of "direct taxation within the province in order to the raising of a Revenue for Provincial Purposes". Thus, Provinces can't impose indirect taxes or direct taxes for purposes other than Provincial ones, and Parliament (arguably) can't impose a direct tax earmarked for purely provincial purposes (though it can spend money on provincial purposes).

2. There are secret ways the rich pay no tax

There are no secret tax-methods that allow the rich pay less (or no) tax. The rules simply

benefit the rich. They pay less tax because they are more likely to earn capital gains (half taxable), dividend income (preferred taxable), or use corporations and trusts to defer taxes and disperse income. The reason the poor and middle class don't access these means is that they just don't earn the 'right kind' of income and don't capture enough of the nation's income to allow them to pay for life and meaningfully access the preferred sources. The solution is to this pressure politicians to collect more taxes on all gains in wealth, and to stop allowing a few to capture the wealth created by society. If the International Monetary Fund agrees that taxing the rich to reduce income inequality is good for the economy – why not do it?

3. A tax only applies to legal not natural persons

This is the detaxer or free-man-on-the-land argument that uses a misconstrued understanding of social contract theory sprinkled with occultist myth to take advantage of the woeful lack of legal understanding in the general population. It's wishful thinking, and plain wrong. Why the rules of the legal-game taught to everyone in high school?

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