Roger Martin

can understand why the idea of basing personal taxes on our life-
time incomes makes so many poli-
cy women and men feel awfully
all the way around - that is cur-
rent bad things always overstay their wel-
coming committee. However, when we look at the logical in the face of change, we will never get change when we desperately need it, as we do now in personal income taxation. The concerns about the change actually ill-
ustrate why we need change.
For example, the Fraser Institute's Jason Clewosky and Mike Veldhuis argue that a lot of people facing higher average tax rates under lifetime taxation. They are cor-
rect, but I can live with that. If you take a static view you will never change to life-
time taxation. However, what I care about is work, saving and investment, growth, and moving forward - the dynamic view. In this respect, the current system has things backward. It gives Canadians generous exemptions on the first dollars they earn - a break of 29% on the first $7,500 of annual earnings (called the Basic Personal Amount), 13% on the next $24,100, 7% on the next $50,000, and then no break - i.e. tax of 29% - on the remainder of income over $103,000. Most people think of this system as progressive and a tax rate of 25% on anyone earning over $103,000. It is not true. These exemptions apply to every Canadian from Ken Thom-
sen and the workers at the poverty line to the working poor single mom at the low end. In Canada, rich people don't pay higher taxes on their income than poor people. Counting income from all kinds of transfer payments to the last dollar, the poor pay exactly the same rate as a billionaire. That's why the first dollars Canadi-
ans earn cost Revenue Canada $30 bil-
lion in lost revenues. The only way Rev-
ung Canada gets the approximately $8 billion in tax revenue it needs - given the $30 billion giveaway - is to charge very high rates on the last dollar Canada earns.
Economists know that the tax rate on the last dollar earned - the marginal tax rate - can be used to encourage individual to make economi-
cal decisions: to work or not work one more hour; to save and invest or spend the next dollar. The higher the marginal rate, the more likely is the decision for less spending and then working, saving and investing. This is why no sale in history has advertised: "If you buy the first shirt at 100% off, you can buy a second shirt at 45% off, the third at 25% off, the fourth at 10% off and all the rest at full price.
I advocate investing the $30 billion in lowering the rate on the last dollar Canadi-
ans earn to generate a greater incentive to work, save and invest, which will produce greater prosperity, economic activity, and tax revenues - which in turn will create the opportunity to lower marginal tax rates for all Canadians.

Ryerson University finance professor Alan Kaplan asserts that lifetime taxation would exacerbate the brain drain. Yes, like his consultant "Jane" who stay in Canada until they hit the $1-million lifetime in-
come and the top rate. Under my proposal, Jane, who is making $8,750 more than under the current system on her first $108,000 and $2,940 less on her last $14,000, will have an incentive to stay. No doubt, Canada would want to keep in Canada would change countries to save a $5,810 per year in taxes on a $250,000 income - a mere 2% of in-
come. The incentive for taxes on the income they leave for big, percentage-point differ-
entials in marginal rates.
My approach reduces the Canada-U.S.

exemptions. To get a handle on the poten-
tial for devastation, consider the absolute:

The current tax system has things backward, which hurts poor Canadians

Rogers Institute study of lifetime taxation would benefit people at all income levels.

example. She gets alternative employment at McDonald's flipping burgers for $15,000 for a year and finding another waiting job. She pays $4,000 in taxes because all the income is at the top rate. Is that devas-
tating? I don't think so, especially taking into account her previous work as a $250,000/year and the savings she should have been putting aside.
Finally, there's the rent. Let's consider the truly.

poor. Taxation of the poor is ill under-

stood in general. Canada's working poor

face obsessedly high marginal income tax rate which kick in at about 24% federal

provincial combined when they earn $8,000 - a mere hallway to the poverty line.

Because lifetime tax is designed to work for the poor and they both need and deserve help, we provide them with a wide array of social programs to funnel money back to them - typically through bureaucratically

intensive means.

Because these social programs are too ex-
pensive to give to richer folks, benefits un-
der these programs are means-tested and clawed back. That is, for every additional dollar a poorer Canadian earns, the govern-
ment removes benefit. Because of this, most of these programs subjects poorer Canadi-
ans to yet another marginal tax rate. Rob-
son, Badgley and Poschmann, did a brilliant analysis several years ago that showed that poorer working Canadians typically face effective marginal tax rates of 50% on their $8,000 in income, or about $35,000. So actually it is poor Cana-
dians, not rich Canadians who face the highest marginal rate.

The lifetime proposal was developed with poor working Canadians in mind by giving them a decade (e.g. $10 years) at 25% tax rate. Under it, they started and providing a huge incentive to work, save and invest. If they are still working in the poor category and leave out of work, they have a lower marginal tax rate and a con-
inued higher incentive to work, save and invest. If these factors help them earn $12,000 instead of $2,000, they are out ahead in after-tax income.

The critics also point to implementation challenges and any change is complicated
cal to climb, but I think there is too much hysteria in the concerns.

For example, what about immigrants and Canadians who live abroad and come back. On the first, ask the immigrant how old he is. Calculate the median lifetime income of Canadians of that age and assign that income as the starting median lifetime in-
come for the immigrant in question. If he objects, he can choose not to come. On the second, consider a Canadian who leaves as she turns 20 and returns when she turns 34. Calculate the median income of Canadians in their 30th, 31st, 32nd and 33rd years and add that amount to her lifetime Canadian income when she returns. For both of these allegedly insur-
mountable objections, nothing more is re-
quired than the creation and application of a single table.

With this comes a move to a lifetime in-
come taxation system in Canada? No. I ac-
knowledge fully that it would be a real chal-

enge. Remember that it took a long while for everyone to accept the concept, and I agree it is careful, deep thinking and rigorous logic. But I am not deterred. I am simply not will-
ing to accept the idea that, because our current counter-productive, complicated and confusing system has high switching costs, we should stay firmly entrenched in the bad system.

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