

**Taxes: Federal Government's Achilles' Heel**  
**BDO Dunwoody Weekly CEO/Business Leader Poll**  
**by COMPAS in the *Financial Post***  
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## 1.0. Introduction

Tax policy may mark the end of a honeymoon between the federal government and the business panel. Ever since the Harper government's election, it has been receiving very strong scores for its performance on a wide range of policies. In a departure from this pattern, the government earned failing grades on three of five tax policies and bare passing grades on the two others in this week's web survey.

CEOs and business leaders on the COMPAS panel are disappointed that a Conservative government would adopt some of the tax policies that it has. They remain concerned, as they have been in the past, that high tax rates beget high rates of tax cheating and an illegal economy. Despite their frustrations, some panellists volunteer that they are withholding their firm or final assessment of this government until it achieves a majority. In a majority setting, it will be easier to assess the true nature of the government, they feel.

These are the key findings from the past week's web survey of the COMPAS CEO and business leader panel undertaken for *The Financial Post* under sponsorship of BDO Dunwoody LLP.

## 2.0. Failing Grades on Tax Policies

Income trust advocates have been running newspaper advertisements defending their cause, as have been some prominent columnists. In the eyes of the panel, the federal government's income trust tax policy is mediocre but not the weakest of its tax policies, as shown in table 2A. The federal government earns failing grades on corporate and personal income tax policy along with a low failing grade for its 2007-08 budget proposal to end the right of companies to deduct interest costs from borrowing to purchase foreign affiliates. The overwhelming majority of CEOs and business leaders on the COMPAS panel are concerned that this provision will make it more difficult for Canadian firms to become global players.

Some verbatim comments:

The federal budget was a HUGE disappointment in many respects, especially from a conservative government. I thought I woke up and found all of a sudden that we had a left wing government!



The bureaucrats at Finance, who have guaranteed pensions, are also to blame for the lousy tax policy that has been proposed for income trusts and interest deductibility.

We pay too much in taxes, at all levels. We are not competitive in a North American environment.

It is troubling that even the Conservatives, in an era when we are racking up record surpluses, don't want to give back to hard working Canadians their own money; We also need to get back to a more simple basic tax system --eliminate from the tax rolls completely those below the poverty line, and then tax everyone earning above that minimum on a flat rate tax basis. Eliminate all needless deductions for the flavour of the month that special interests have coaxed the government into granting tax favours for.

Hong Kong has a flat tax approach to personal income taxes, at around 15%.and nobody tries to avoid paying. They have free medical services for all, and the waiting lists are far shorter than here. Admittedly there's not a lot of time or money spent on "feel good" programmes. With full employment people are too busy working to worry about those sorts of luxuries.

The real issue is that government is much too big and expensive, particularly in respect of personnel. Take CIDA, for example; it should be run by largely retired personnel.

The Harper government a "conservative" government? Will this government change its stripes if it should get a majority vote? I feel it will, but what harm will be done in the meantime.

Canadian Governments continue to show a lack of respect for their constituents in the way they spend money.

The CRA conduct themselves like a bunch of above the law thugs. With the CRA, we are presumed guilty until we prove our innocence. They start off correspondence with: "You owe X dollars in penalties and interest (at loan shark rates) and this can be for an innocent mistake. They also use a very rude system to call us, the taxpayers; an electronic message tells you to stay on the line for an important call. This results in my hanging up the phone. If they want to speak with me, they can pick up the phone and call, like a civilised business person. The CRA has an important job to do, but they are out of control!



*Table 2A: (Q1) On a 100 point, school report card type scale, what performance score would you give for the Harper government with respect to:*

	Mean
Income trusts	56
The GST	55
Corporate income taxes	47
Personal income taxes	46
The 2007-8 budget proposal to end the right of companies to deduct the interest costs from borrowing to purchase foreign affiliates	38

*Table 2B: (Q5) The government's 2007-8 budget proposes to end the right of companies to deduct the interest costs from borrowing to purchase foreign affiliates. Critics say that this provision would make it more difficult for Canadian firms to be global players and make Canadian firms more vulnerable to foreign takeovers. On a 7 point agreement scale where 7 means agree strongly and 1, disagree strongly, how much do you agree with this criticism?*

Mean	7	6	5	4	3	2	1	DNK
5.5	33	21	18	10	8	2	3	6

### **3.0. Principles Governing Good Tax Policy**

Panellists believe strongly that tax policy should be driven by the principle of keeping rates just below the rate at which significant tax avoidance and evasion begins,



as shown in table 3A. For individual income tax, that rate is seen to be 34%, for corporations, 28%, as shown in tables 3B and C.

*Table 3A: (Q2) Some experts say that governments should keep income tax rates below the rate at which people start thinking seriously of avoiding taxes by cheating, re-organizing their tax situation, or not working at all. On a 7 point scale where 7 means agree strongly and 1, disagree strongly, how do you feel about this viewpoint?*

Mean	7	6	5	4	3	2	1	DNK
5.4	34	25	17	7	4	9	3	2

*Table 3B: (Q3) At what income tax rate (rounded to the nearest percentage point) do people, in your view, start thinking seriously of avoiding taxes by cheating, re-organizing their tax situation, or not working at all?*

	Mean
April 2007	34
April 2006	34

*Table 3C: (Q4) Thinking of corporate income taxes, what do you think is the rate (rounded to the nearest percentage point) above which companies begin to focus a lot more energy than otherwise on avoiding taxes and not just on doing business?*

	Mean
April 2007	28
April 2006	26

Some verbatims:

"A third to Rome", it was good then and it should be good today.  
 The fundamental flaw in the tax system is penalizing doing better ...  
 We have piece work employees that calculate income to stay under tax thresholds, believing their off time is more valuable than tax contribution. The tax avoidance economy is growing and flourishing more for survival than otherwise.



The point where taxation turns many to find significant ways and means of avoiding, even evading, tax has long past. Underground and totally illegal (drug trade etc.) operations flourish in Canada, leaving legitimate businesses and honest individuals to 'foot the bills' in our society. The Government and the Judiciary in this country should be ashamed of condoning this situation ... but then again ... you are talking about politicians and an antiquated Judicial/Legal system.

## **4.0. Methodology**

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted April 18-20, 2007. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 128 are deemed accurate to within approximate 8.7 percentage points 19 times out of 20. The principal investigator on this study is Tamara Gottlieb.

