

SUMMARY OF THE BUDGET  
OF THE  
NATIONAL GOVERNMENT OF CANADA  
FOR THE  
FISCAL YEAR ENDING MARCH 31, 1953

PREPARED BY  
THE STAFF OF THE JOINT COMMITTEE  
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# SUMMARY OF THE BUDGET OF THE NATIONAL GOVERNMENT OF CANADA

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## I. SUMMARY STATEMENT

The Minister of Finance, Mr. Douglas Abbott, presented his annual financial statement to the Canadian House of Commons on April 8, 1952. A summary of his statement appears below:

### (A) TAX AND TARIFF CHANGES

1. The increase in 1952 individual income taxes of slightly over 9 percent, which would have occurred in the absence of any revenue legislation this year, is reduced by about a third for 1952 and by about two-thirds for 1953 and subsequent years in the proposals contained in the financial statement. This statement does not take into account the tax increase provided by the Old-Age Security Act last year, which adds 1 percentage point (maximum tax, \$30) to the individual income tax in 1952 and 2 percentage points (maximum tax, \$60) for 1953 and subsequent years. It is estimated that the changes in the rates will reduce personal income tax revenues about \$40 million below what they otherwise would be in the fiscal year 1953 and about \$65 million below what they otherwise would be in subsequent years.

2. Other changes in the personal income tax include the doubling of the existing maximum limits on the amount of medical expenses that may be deducted in computing income subject to tax. Also, in the future, medical expenses paid in the taxable year are to be deductible irrespective of when they were incurred.

3. Previously the National Government imposed income taxes on corporations at rates of 17 percent on the first \$10,000 of profits, and 47.6 percent on profits over \$10,000. This includes the 2-percent corporate income tax collected for the old-age security program. In addition, corporations paid a 5-percent income tax in the eight Provinces with which the National Government has tax agreements, and a 7-percent tax in the two remaining Provinces of Ontario and Quebec. In the future, except in the case of Ontario and Quebec, only the Canadian National Government will collect an income tax from corporations, and the rates imposed, including the old-age security tax, will be 22 percent on the first \$10,000 of profits and 52 percent on profits over \$10,000. The collections from the 5-percent-age-point tax increase then will be turned over to the Provinces. In the case of corporations in Ontario and Quebec, a 5-percent-age-point tax credit will be allowed. This action reduces the combined cor-

porate-tax rate on income over \$10,000 by six-tenths of 1 percentage point. Canada does not levy an excess-profits tax and none is proposed in this year's financial statement. These changes in the corporate-income-tax rate are expected to decrease national revenues available for general expenditures by \$12 million in 1953 and by \$18 million in subsequent years. However, the National Government also is expected to collect \$25 million in 1953 and \$35 million in subsequent years which will be turned over to the Provinces.

4. Government corporations competing with private business, which have previously been exempt from the corporate income tax, effective January 1, 1952, will be liable to this tax in the same manner as other corporations.

5. Electric, gas and steam public utilities are to be given a deduction for tax purposes which will have the effect of reducing their over-all corporate income tax rate (excluding the old-age security tax) from 50 percent to 43 percent.

6. The allowance now granted for "off property" exploration expenses incurred in searching for minerals, petroleum or natural gas is extended for one additional year. Another year is also added to the period during which new mines may qualify for the 3-year exemption for new mines. Previous law had permitted qualification for these benefits through 1954.

7. Certain foods and business cost items are to be exempted from the 10 percent manufacturers' sales tax.

8. Substantial reductions are made in the excise tax rates. The wide range of consumer items previously taxed at 25 percent (listed subsequently in this report) are now taxed at 15 percent; washing machines, stoves, and refrigerators which previously were taxed at 15 percent, are exempt from excise taxation; and the 30 percent tax on soft drinks is reduced to 15 percent. Reductions are also made in the excise taxes on tobacco. The combined excise duty and tax on a standard pack of cigarettes is reduced from 23 cents to 20 cents a pack. The excise tax on raw leaf tobacco is reduced by 12 cents a pound, making the combined excise tax and duty on such tobacco 28 cents instead of 40 cents per pound. It is estimated that these excise tax changes will reduce revenues by \$88 million in 1953 and by \$97 million in a full year of operation.

9. Certain revisions are also made in the tariff schedules. Rates on plastic items are readjusted, providing both increases and decreases. Reductions are provided on such items as window glass, plate glass, certain forms of safety glass, and mirrors. Lower rates are provided in the case of items which enter into the cost of production of certain manufacturing and primary industries. Provision is also made for entry free of duty for complete aircraft and engines of types and sizes not made in Canada.

#### (B) REVENUES AND EXPENDITURES

1. The provisional figure for total budgetary expenditures for the fiscal year 1952, ending March 31, 1952, is \$3,647 million, and the provisional figure for revenues is \$4,003 million, providing a surplus of \$356 million. This does not include certain loans and investments, which would be included in the United States budget. These amount to \$175 million on a net basis and would therefore reduce the surplus



on this basis to \$181 million. As in the United States, old age security pension payments are handled by a separate fund and are not included in the above totals. On a cash basis, expenditures of the Canadian Government for the fiscal year 1952 are estimated at \$3,828 million, and revenues at \$4,218 million, providing a cash surplus of \$390 million.

2. Expenditures for the fiscal year ending March 31, 1953, are estimated at \$4,270 million. This is based upon the budgetary concept of expenditures and excludes loans and investments and also \$322 million of estimated expenditures for old age security pensions. Revenues in the fiscal year 1953, before taking into account the tax program proposed in the current financial statement, are estimated at \$4,395 million. Since the tax changes proposed by Mr. Abbott are expected to decrease revenues in the fiscal year 1953 by \$116 million, the anticipated revenue for 1953 is \$4,279 million. Before the tax proposals this would mean a budgetary surplus of \$125 million, and after the tax proposals, a surplus of \$9 million, or approximately a balanced budget. However, if the net balance of loans and investments is of the same magnitude as in 1952, in terms of United States budgeting concepts, Canada probably will have a deficit approaching \$200 million. As in the case of expenditures, the Canadian revenue estimates do not include receipts to be set aside for the old-age security program which are estimated at \$235 million for fiscal year 1953. The cash budget for 1953 is expected to be approximately in balance.

## II. ECONOMIC BACKGROUND

Mr. Abbott stated in his financial statement:

As I have told the House on many past occasions, we can hardly expect to have much less inflation than exists in the United States—our economies are too closely intermingled and theirs is so much larger—but unless we manage our affairs well we could have a great deal more.<sup>1</sup>

The views of the Canadian Government on general economic conditions in the calendar year 1952 are expressed in the following statement which appears in the white paper submitted with the financial statement:

The general economic position in the opening months of 1952 is that the inflationary pressures have been brought under control, but that at many points in the economy a strong inflationary potential still exists. Any series of adverse events which sharply raised the present international tensions could bring about a renewal of direct inflationary pressures that might seriously test our economic defenses. But at the moment the prospects for 1952 indicate continued high levels of employment and general business activity, without any renewal of overt inflation, and with most of the increased output occurring in the defense and defense supporting sections of the economy.<sup>2</sup>

The Canadian budget for the fiscal year ending March 31, 1953, was based upon an estimated gross national product of \$22.5 billion for the calendar year 1952. Since the Canadian gross national product was \$21.2 billion in the calendar year 1951, this means that a 6 percent rise in the income levels was assumed for the calendar year 1952. According to the Secretary of the Treasury an estate of \$265 billion was used as the personal income level for the calendar year 1952 in

<sup>1</sup> House of Commons Debates, Official Report, Tuesday, April 8, 1952, Queen's Printer and Comptroller of Stationery, Ottawa, 1952, pp. 1245-1246.

<sup>2</sup> The quotation appears in Budget Papers presented by the Honorable D. C. Abbott, M. P., for the information of Parliament in connection with the Budget of 1952-53, p. 7. These papers are attached to the House of Commons Debates, op. cit.



the preparation of the United States' budget for the fiscal year 1953. Since the personal income level in the United States was \$251 billion in the calendar year 1951, this also assumed a rise in incomes of nearly 6 percent.

Despite the similarity of economic conditions in the United States and Canada, the policies the two countries have followed in combating inflation in the past few years have been quite different. The United States has employed direct controls both on wages and on prices and has imposed a corporate excess-profits tax. In Canada wage and price controls have not been employed and no excess-profits tax has been imposed. Instead Canada has made greater use of excise taxes and has provided an increase in its manufacturers' sales tax to mop up excess purchasing power.

Assuming a repetition of the 1952 figure for net loans and investment, the Canadian receipts before the tax changes would have equaled about 99 percent of expenditures in the fiscal year 1953, while in the United States the prospect is that receipts in the fiscal year 1953 will be about 85 percent of expenditures.<sup>3</sup> This is an important factor in the Canadian optimism about declining inflationary pressures, and in large measure accounts for the fact that Canada is able to reduce tax rates below the level previously planned by providing moderate reductions in excise taxes and in individual income tax withholding. Basic to this is the fact that Canada has a somewhat different fiscal problem from that in the United States, since her expenditures (including net loans and investments) have increased only 66 percent from 1950 to 1953, while her revenues, without taking into account the tax proposals made this year, have increased by 70 percent in the same period. In the United States, on the other hand, expenditures have increased 99 percent since 1950, while revenues have only increased 84 percent in the same period.<sup>4</sup>

### III. RECEIPTS AND EXPENDITURES

The actual and estimated budgetary receipts and expenditures as shown in the financial statement or in the white paper attached to that statement are summarized in table 1 for the fiscal years 1951, 1952, and 1953. Canada's fiscal year begins on April 1, 3 months before the fiscal year used by the United States.

<sup>3</sup> The expenditure figure used for the United States in the fiscal year 1953 is \$80 billion and the receipt figure, \$68.3 billion. If the 1953 estimates of \$85.4 billion in the case of expenditures, and \$71 billion in the case of receipts, contained in the United States budget presented this last January had been used, the above percentage would have been 83 percent instead of 85 percent.

<sup>4</sup> The expenditure and receipt estimates used for the United States in the fiscal year 1953 are as noted in footnote No. 3. If the 1953 estimates contained in the United States budget presented this last January had been used, the above percentage in the case of expenditures would have been 113 percent and in the case of receipts, 92 percent.

TABLE 1.—*Canadian budgetary receipts, expenditures and surplus for the fiscal years 1951, 1952, and 1953*

[In millions of dollars]

	Actual		Estimated 1953	
	1951	1952 <sup>1</sup>	Before tax changes	After tax changes
Receipts.....	3, 113	4, 003	4, 395	4, 279
Expenditures.....	2, 901	3, 647	4, 270	4, 270
Surplus.....	211	356	125	9

<sup>1</sup> Based on probable receipts and expenditures as reported in the House of Commons Debates for Apr. 8, 1952.

Table 1 indicates that both receipts and expenditures forecast for the fiscal year 1953 are above those of 1951 and 1952. The increase in revenues forecast for 1953 after taking into account the proposed tax reductions amounts to \$276 million over those in 1952. The primary revenue sources accounting for this increase (excluding old-age security taxes) are individual income taxes, which increase by \$224 million, and corporate income taxes which increase by \$136 million. Excise and sales taxes, on the other hand, are expected to bring in \$90 million less in revenues in 1953 than in 1952. Individual income tax collections are expected to increase in the fiscal year 1953 not only because of somewhat higher income levels, but also because the rates applicable to individuals for the calendar year 1952 will be somewhat above those applicable for the calendar year 1951. Similarly, corporate income tax collections are expected to be higher in the fiscal year 1953 not only because of the somewhat higher income levels, but also because tax increases for corporations provided by prior law are not fully reflected in tax collections until the fiscal year 1953. The decrease in excise- and sales-tax collections is attributable almost entirely to the tax reductions to be made as a result of the proposals presented in the financial statement.

The surplus for 1953 of \$125 million before the tax changes are taken into account is \$231 million below that expected for the fiscal year 1952, and the surplus for 1953 of \$9 million after the tax changes are taken into account is \$347 million below that expected for 1952. In this respect the Finance Minister indicated:

What I am really doing, of course, is budgeting for a balanced budget, since the \$9 million surplus is less than one quarter of 1 percent of revenues and less than the normal mathematical margin of error in the estimates themselves.<sup>5</sup>

As it is in the United States the old-age security fund in Canada is handled outside of the regular budget. Thus, as in the United States, expenditures and receipts for this program are not reflected in the expenditure, receipts, or surplus totals shown in table 1. However, in another respect the budgetary procedures followed by Canada differ from those followed by the Federal Government of the United States. In Canada loans and investments, on which recovery eventually is

<sup>5</sup> House of Commons Debates, op. cit., p. 1260.



anticipated, do not appear as expenditures at the time the loans are made, or receipts at the time the loans or investments are repaid. The United States, on the other hand, does consider these loans and investments in most cases to be expenditures at the time made and receipts at the time recovered. In Canada these loans and investments include transactions with National Government agencies and corporations, with the Provincial and municipal governments, and with foreign countries, particularly the United Kingdom. In 1952 these loans and investments would have had the effect of decreasing the Government surplus by \$175 million had they been treated as budgetary items. Sufficient detail is not available to determine the estimated net balance of these loans and investments for the fiscal year 1953.

In determining the effect of the Government's transactions on other segments of the economy and also in determining the Government's borrowing requirements, the "cash accounts," or cash budget as it is known in the United States, are probably more significant than the ordinary budget. Table 2 compares the cash budgets of the Government of Canada and the Federal Government of the United States for the fiscal years 1951 and 1952. This table indicates that Canada had a surplus (small relative to its gross national product) in both 1951 and 1952. The United States had a somewhat larger cash surplus, relative to its gross national product, in 1951, but a deficit is estimated in its cash budget in 1952. In both cases the 1952 figure is an estimate, and in the case of the United States, the estimate for 1952, which was made by the President last January, shows a larger cash deficit than now appears probable. In its estimates of Federal receipts for the fiscal year 1952, the staff of the Joint Committee on Internal Revenue Taxation arrived at a conventional budget deficit of \$5.7 billion for the fiscal year 1952, or about \$2.5 billion below that shown in January for the 1952 conventional budget. Thus, it now appears probable that in the fiscal year 1952 the deficit in the United States cash budget will be something like \$1.5 billion instead of the \$4.0 billion shown in table 2. This is the equivalent of approximately one-half of 1 percent of the gross national product of the United States for the calendar year 1951.

TABLE 2.—*Comparison of the cash budgets of the Government of Canada and the Federal Government of the United States for the fiscal years 1951 and 1952*

[In millions of dollars]

	Canada		United States	
	Actual 1951	Estimated 1952	Actual 1951	Estimated 1952
Cash receipts.....	3, 212	4, 218	53, 400	68, 597
Cash disbursements.....	3, 042	3, 828	45, 807	72, 625
Cash surplus (+) or deficit (—)...	+171	+390	+7, 593	—4, 027
Cash surplus (+) or deficit (—) as a per- cent of gross national product in 1951...	0. 8	1. 8	2. 3	—1. 2



The Minister of Finance presents no cash budget estimates for Canada for the fiscal year 1953. However, he does make the following statement:

My general conclusion is that unless there is a substantial change in the amounts advanced to the exchange fund our over-all cash surplus will correspond fairly closely with our budget surplus.<sup>6</sup>

In view of the fact that the Canadian estimates show the conventional budget to be approximately in balance, it appears that a balanced cash budget is anticipated for the fiscal year 1953. In the United States the January budget message estimated that for the fiscal year 1953 the United States would have a cash deficit of approximately \$10.4 billion. However, as in the case of the 1952 estimates, more recent events suggest that this deficit is probably overstated. The staff of the Joint Committee on Internal Revenue Taxation has estimated the ordinary budget deficit for 1953 at \$11.7 billion instead of the \$14.4 billion forecast in the January budget. This suggests a cash deficit of approximately \$7.7 billion for the fiscal year 1953, instead of \$10.4 billion.

Table 3 compares the budgetary expenditures of the Government of Canada and those of the Federal Government of the United States by major functions. This table, in the case of Canada, was prepared by the staff of the Joint Committee on Internal Revenue Taxation from data in the financial statement, in the white papers attached to the financial statement, and from "Canada, Estimates for the fiscal year ending March 31, 1953."<sup>7</sup> Since a considerable amount of judgment is involved in the classification process, the breakdown shown must be regarded as an approximation. Moreover, the only detailed information available for estimated Canadian expenditures for 1953 was released some time prior to the presentation of the financial statement and the estimate of total expenditures is revised in the statement. This made it necessary in the case of these 1953 expenditures to add a balancing item which could not be distributed by function. In the case of United States expenditure estimates also, it should be recognized that information available since the issuance of these data last January suggest that total expenditures are likely to be nearly \$4 billion below those shown for 1952, and over \$5 billion below those shown for 1953, with much of the reduction in both cases occurring in the military services category. Despite these limitations, it is believed that this table presents at least a rough basis for comparing Canadian and United States expenditures by the various major functional categories.

<sup>6</sup> House of Commons Debates, op. cit., p. 1251.

<sup>7</sup> Queens' Printer and Comptroller of Stationery, Ottawa, 1952.

TABLE 3.—*Comparison of budgetary expenditures of the Government of Canada and the Federal Government of the United States by major functions*

[Amounts in millions of dollars]

Functions	Canada						United States					
	Actual, 1951		Estimated				Actual, 1951		Estimated <sup>1</sup>			
			1952		1953				1952		1953	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Military services.....	569	19.6	1,261	34.6	1,692	39.6	20,462	45.8	39,753	56.1	51,163	59.9
International security and foreign relations.....	218	7.5	163	4.5	364	8.5	4,727	10.6	7,196	10.2	10,844	12.7
Finance, commerce, and industry.....	30	1.0	49	1.3	81	1.9	176	.4	751	1.1	833	1.0
Transportation and communication.....	216	7.4	251	6.9	273	6.4	1,685	3.8	2,153	3.0	1,643	1.9
Natural resources.....	59	2.0	68	1.9	80	1.9	2,051	4.6	3,082	4.3	3,237	3.8
Agriculture.....	145	5.0	67	1.8	60	1.4	650	1.5	1,408	2.0	1,478	1.7
Labor.....	63	2.2	65	1.8	68	1.6	228	.5	240	.3	246	.3
Housing and community development.....	4	.1	5	.1	7	.2	602	1.3	881	1.2	678	.8
Education and general research.....	8	.3	18	.5	6	.1	115	.3	238	.3	624	.7
Social security, welfare, and health.....	476	16.4	515	14.1	423	9.9	2,380	5.3	2,680	3.8	2,662	3.1
Veterans' services and benefits.....	233	8.0	252	6.9	293	6.2	5,339	12.0	5,166	7.3	4,197	4.9
General Government.....	318	11.0	365	10.0	232	5.4	1,209	2.7	1,353	1.9	1,484	1.7
Interest.....	439	15.1	441	12.1	434	10.2	5,714	12.8	5,955	8.4	6,255	7.3
Grants, taxes, and subsidies to Provinces <sup>2</sup> .....	124	4.3	127	3.5	182	4.3						
Reserve for contingencies and adjustment to daily Treasury statement.....							-705	-1.6	25	( <sup>3</sup> )	100	.1
Net effect of savings in expenditures and additional anticipated expenditures not included in estimates <sup>4</sup> .....					106	2.5						
Total.....	2,901	100.0	3,647	100.0	4,270	100.0	44,633	100.0	70,881	100.0	85,444	100.0

<sup>1</sup> Estimates contained in the budget document of January 1953.

<sup>2</sup> In the United States grants-in-aid, shared revenues and loans and investments made to States and local governments are earmarked for specific purposes and therefore appear under various functional headings. In 1951 these amounted to \$2.4 billion, and in 1952 and 1953 they are estimated to amount to \$2.7 billion and \$3.0 billion, respectively.

<sup>3</sup> Less than 0.05 percent.

<sup>4</sup> Includes such items as deficit of Canadian National Railways, grants to universities, subsidy on movement of feed grains after end of current crop year, etc.

NOTE.—Figures are rounded and may not add to totals.

Table 3-A shows for 1951 and 1952 the same distribution of Canadian expenditures by major functions but includes loans and investments.

These tables indicate that in both Canada and United States military services represent by far the biggest expenditure item. In table 3 these expenditures are shown as accounting for 35 percent of the Government of Canada's expenditures in 1952 and 40 percent in 1953, while in the United States the figures shown are 56 percent and 60 percent, respectively. However, as previously indicated, the figures for United States are probably overstated in this category and it is quite likely that the military service expenditures in both 1952 and 1953 in the United States account for as much as 2 percent less of the total budgetary expenditures than is shown in table 3.

TABLE 3-A.—*Expenditures of the Government of Canada by major functions, including the effects of the annual changes in active loans and investments*

[Amounts in millions of dollars]

Function	Actual, 1951		Estimated, 1952	
	Amount	Percent	Amount	Percent
Military services-----	572	19. 2	1, 261	33. 0
International security and foreign relations-----	174	5. 8	104	2. 7
Finance, commerce, and industry-----	27	. 9	57	1. 5
Transportation and communication-----	238	8. 0	391	10. 2
Natural resources-----	58	1. 9	68	1. 8
Agriculture-----	147	4. 9	68	1. 8
Labor-----	63	2. 1	65	1. 7
Housing and community development-----	83	2. 8	82	2. 1
Education and general research-----	8	. 3	18	. 5
Social security, welfare, and health-----	476	16. 0	515	13. 5
Veterans' services and benefits-----	248	8. 3	261	6. 8
General government-----	324	10. 9	369	9. 7
Interest-----	439	14. 7	441	11. 5
Grants, taxes, and subsidies to Provinces--	121	4. 1	123	3. 2
Total-----	2, 977	100. 0	3, 823	100. 0

NOTE.—Figures are rounded and may not add to totals.

In Canada the nonmilitary service categories shown in table 3 as accounting for 5 percent or more of expenditures in 1953 are interest, 10.2 percent; social security, welfare, and health, 9.9 percent; international security and foreign relations, 8.5 percent; transportation and communication, 6.4 percent; veterans' services and benefits, 6.2 percent; and general government, 5.4 percent. In the United States the nonmilitary service categories accounting for about 5 percent or more of total expenditures in 1953 are international security and foreign relations, 12.7 percent; interest, 7.3 percent; and veterans' services and benefits, 4.9 percent.

In the calendar year 1951 the Canadian National Government's expenditures, including subsidies to Provincial and municipal governments, represented 14.4 percent of her gross national product in 1951. The comparable percentage in the case of the Federal Government of the United States is 17.9 percent. Thus, at the national level alone,



Government expenditures in United States account for a larger percentage of gross national product than is true in the case of Canada. However, this is largely compensated for by larger Provincial and municipal expenditures in Canada. In Canada Provincial and municipal expenditures in 1951 amounted to 9 percent of Canada's gross national product, while in the United States, State and local expenditures in 1951 amounted to only 6.5 percent of our gross national product. Thus, over-all Government expenditures in Canada and United States represent very nearly the same percentage of gross national product, 23.4 percent in Canada and 24.4 percent in the United States in 1951.

The net purchase of goods and services by the two governments represents another basis for comparison of Government expenditures. This omits those expenditures where a government is acting only as an agent transferring funds from one group of persons to another, and thus excludes expenditures which do not involve the use of resources by government. On this basis expenditures by the United States governments, including State and local governments, represented about 19 percent of the gross national product in 1951. National, Provincial, and municipal government purchases of goods and services in Canada in 1951 represented 14.7 percent of the gross national product. Thus, the main difference in the total government budgets in the two countries lies in the size of the transfer and other payments apart from those for goods and services, 5.2 percent of the gross national product in the United States and 8.7 percent in Canada. As a result, the effect of government expenditures on tax policies should be about the same in the two countries, although the United States governments divert a larger volume of goods and services from the private segment of the economy.

Table 4 shows the distribution of revenue by major sources for the Government of Canada and also for the Federal Government of the United States for the fiscal years 1951, 1952, and 1953. This table indicates that Canada places a greater reliance on sales and excise taxes than is true in the United States, and less reliance on the individual and corporate income taxes than does the United States. However, over the 3-year period Canada has increased the proportion of her revenue which is derived from the individual and corporate income taxes.

TABLE 4.—Comparison of the major revenue sources of the Government of Canada and the Federal Government of the United States, for the fiscal years 1951, 1952, and 1953

[Money amounts in millions of dollars]

	Canada				United States			
	Actual 1951		1952 <sup>1</sup>		1953 <sup>2</sup>		Actual 1951	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Individual income tax.....	\$714	22.9	\$1,036	25.7	\$1,312	29.1	\$23,365	43.8
Corporation income tax <sup>4</sup> .....	799	25.7	1,136	28.2	1,318	29.2	14,388	27.0
Sales and excise taxes.....	928	29.8	1,140	28.3	1,166	25.8	8,693	16.3
Customs.....	296	9.5	353	8.8	370	8.2	624	1.2
All other receipts.....	376	12.1	360	8.9	348	7.7	6,299	11.8
Total.....	3,113	100.0	4,024	100.0	4,514	100.0	53,369	100.0
Deduct:								
Old-age security taxes or appropriation to OASI trust fund.....			21		235		3,120	
Refunds of receipts.....							2,106	
Net budget receipts.....	3,113		4,003		4,279		48,143	
							62,680	
							77,737	100.0
							4,030	
							2,709	
							70,998	

<sup>1</sup> Probable receipts.

<sup>2</sup> Estimated; after proposed tax changes.

<sup>3</sup> Estimates as contained in January 1953 budget document.

<sup>4</sup> In the case of the United States includes excess profits tax collections.

## IV. BUDGET TAX CHANGES

The revenue effects of the tax proposals presented in the financial statement are summarized in table 5.

TABLE 5.—*Estimated revenue reduction resulting from proposed tax changes*

[In millions of dollars]

	Fiscal year 1953	Full year effect
Personal income tax, revision of rate structure.....	40	65
Corporation income tax:		
(a) Decrease of 0.6 percent in tax rate.....	12	18
(b) Increase from incorporation of 5 percent provincial corporate tax into the Federal tax structure.....	<sup>1</sup> + 25	<sup>1</sup> + 35
Excise and sales taxes:		
(a) Rate on articles presently taxed at 25 percent reduced to 15 percent.....	58	64
(b) Rate on soft drinks reduced from 30 percent to 15 percent.....	10	11
(c) Tax of 15 percent on refrigerators, stoves, and washing machines repealed.....	10	11
(d) Rate on cigarettes reduced from 23 cents a pack to 20 cents a pack <sup>2</sup> .....	10	11
(e) Other miscellaneous changes.....	1	1
Total excise and sales taxes.....	89	98
Total.....	<sup>3</sup> 116	<sup>3</sup> 146

<sup>1</sup> This increase is to be reflected in a corresponding decrease of the corporate tax imposed by the Provincial governments.

<sup>2</sup> This includes the excise duty on cigarettes of 12 cents per pack.

<sup>3</sup> The total reduction excluding the effect of the increase in corporate taxes offset by a decrease in Provincial corporate income-tax receipts is \$141 million in 1952-53 and \$151 million in a full year of operation.

The revenue loss shown in the above table for 1953 is a loss only in terms of the revenue which it is estimated would otherwise have been received in 1953. The estimated tax revenue for 1953 after the tax reductions is still \$290 million above the probable tax revenue for 1952.

Mr. Abbott gave the following general explanation as to the tax policy to be followed by the Canadian Government this year:

A year ago, in the face of an extremely uncertain situation, I put forward what I described as a provisional tax program. This was done in the expectation that the outlook at home and abroad would become clearer. While the future is not free of uncertainty, the prospects are now sufficiently clear to justify moving toward a more stable pattern in our tax structure. The main essentials in a tax structure necessary to carry the civilian and the defense programs are that it should be adequate, efficient, fair, and reasonably stable. To be adequate it is clear that I cannot offer any large net reductions in taxes this year. To be efficient and to be as fair as possible I shall be proposing quite a number of modifications, which on balance will provide some net reduction in tax revenues, though in certain instances adjustments in consumption may partly offset the adjustments in the tax rates. These modifications in tax rates, and some rearrangements in the grouping of tax commodities, will I believe put our tax structure into an orderly balance and, in the absence of substantial changes in the pattern of expenditure, provide some promise of reasonable stability in our tax structure for the immediate future.<sup>8</sup>

<sup>8</sup> House of Commons Debates, op. cit., p. 1252.



## (A) INDIVIDUAL INCOME TAXES

In the absence of any changes by Parliament in the individual income tax this year, individuals subject to these taxes would have found their tax liabilities considerably higher in 1952 than in 1951. Last year individual income taxes were increased by the addition of a defense surtax equal to a flat percentage increase in the amount of tax due under the then existing law. The increase provided at that time for 1951 was 10 percent and the increase to be effective in the calendar year 1952 was to be 20 percent (over 1950 taxes). This would have increased everyone's taxes by a little over 9 percent in 1952 over 1951. In addition, Canada passed an old-age security act last year somewhat similar to our old-age and survivors insurance program, which is financed in part from an addition to the individual income tax. In 1952 the additional tax as the result of the old-age security program is 1 percent of taxable income, but not in excess of \$30. In subsequent years it is to be 2 percent of taxable income with a maximum of \$60. In the absence of any tax legislation this year, the Canadian individual income taxpayer in the bottom bracket (excluding old-age security taxes) would have had his tax rate increased from 16.5 percentage points to 18 percentage points, an increase of slightly over 9 percent. The Canadian individual income taxpayer with income in the top bracket would have had the rate on such income increased from 88 percentage points to 96 percentage points, also an increase of slightly over 9 percent.

Mr. Abbott in his financial statement indicates that the Canadian Government will substitute an entirely new rate schedule for the old schedule, including the 20 percent defense surcharge. The new schedule, when fully effective, is expected to reduce the revenue which otherwise would be received by about 6 percent. However, this new rate schedule is not to be fully effective until the beginning of the calendar year 1953. A temporary tax schedule is to be applicable in the calendar year 1952 which incorporates approximately one-half of the reductions to be provided in 1953. Thus, the tax reduction in 1952 is to be approximately 3 percent based upon what the tax would otherwise have been in 1952. For 1952, however, this is still 1 percentage point above the 1951 rate (excluding the old-age security tax) in the bottom tax bracket, and 3 percentage points above the 1951 rate in the top bracket. For 1953 the regular individual income tax rates will be decreased somewhat further. As a result, the tax in 1953 in the bottom bracket (excluding the old-age security tax) will be only a half percentage point above the 1951 rate, while the top bracket rate will be 2 percentage points below that effective in 1951. Table 6 shows the 1951 individual income bracket rates together with the rates which would have been in effect in 1952 in the absence of any tax decrease, and the new 1952 and 1953 rates. These rates are shown both excluding and including the old-age security tax.

TABLE 6.—*Canadian individual income tax rates for the calendar years 1951-53 under existing law and under financial statement proposals*

Taxable income	1951 <sup>1</sup>	Old 1952 rates <sup>1</sup>		New 1952 rates <sup>1</sup>		New 1953 rates <sup>1</sup>	
		Exclud- ing old-age security tax	Total, includ- ing old-age security tax <sup>2</sup>	Exclud- ing old-age security tax	Total, includ- ing old-age security tax <sup>2</sup>	Exclud- ing old-age security tax	Total, includ- ing old-age security tax <sup>2</sup>
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
0 to \$1,000-----	16.5	18.0	19.0	17.5	18.5	17.0	19.0
\$1,000 to \$2,000-----	18.7	20.4	21.4	19.7	20.7	19.0	21.0
\$2,000 to \$3,000-----	20.9	22.8	23.8	22.4	23.4	22.0	24.0
\$3,000 to \$4,000-----	20.9	22.8	22.8	22.4	22.4	22.0	22.0
\$4,000 to \$6,000-----	24.2	26.4	26.4	25.7	25.7	25.0	25.0
\$6,000 to \$8,000-----	28.6	31.2	31.2	30.6	30.6	30.0	30.0
\$8,000 to \$10,000-----	33.0	36.0	36.0	35.5	35.5	35.0	35.0
\$10,000 to \$12,000-----	38.5	42.0	42.0	41.0	41.0	40.0	40.0
\$12,000 to \$15,000-----	44.0	48.0	48.0	46.5	46.5	45.0	45.0
\$15,000 to \$25,000-----	49.5	54.0	54.0	52.0	52.0	50.0	50.0
\$25,000 to \$35,000-----	55.0	60.0	60.0	57.5	57.5	55.0	55.0
\$35,000 to \$40,000-----	55.0	60.0	60.0	60.0	60.0	60.0	60.0
\$40,000 to \$50,000-----	60.5	66.0	66.0	63.0	63.0	60.0	60.0
\$50,000 to \$60,000-----	60.5	66.0	66.0	65.5	65.5	65.0	65.0
\$60,000 to \$75,000-----	66.0	72.0	72.0	68.5	68.5	65.0	65.0
\$75,000 to \$90,000-----	66.0	72.0	72.0	71.0	71.0	70.0	70.0
\$90,000 to \$100,000-----	71.5	78.0	78.0	74.0	74.0	70.0	70.0
\$100,000 to \$125,000-----	71.5	78.0	78.0	76.5	76.5	75.0	75.0
\$125,000 to \$150,000-----	77.0	84.0	84.0	79.5	79.5	75.0	75.0
\$150,000 to \$225,000-----	77.0	84.0	84.0	82.0	82.0	80.0	80.0
\$225,000 to \$250,000-----	82.5	90.0	90.0	85.0	85.0	80.0	80.0
\$250,000 to \$400,000-----	82.5	90.0	90.0	88.0	88.0	86.0	86.0
\$400,000 and over-----	88.0	96.0	96.0	91.0	91.0	86.0	86.0

<sup>1</sup> Rates shown are for earned income.<sup>2</sup> The old-age security tax is 1 percent in 1952, and 2 percent in 1953, on the first \$3,000 of taxable income.

Under prior law Canada imposed a 4-percent flat-rate tax on investment income which, in general, applies to income other than salaries and wages, retirement income, or pensions. The first \$2,400 of such income is exempt, or if the taxpayer's allowance for married status, dependents, etc., is greater than \$2,400, he may deduct the greater amount. The 20-percent defense surtax was to apply to this 4-percent tax, as well as to the other income-tax rates.<sup>9</sup> Thus, under prior law the tax rate which would have applied to investment income in 1952 was really 4.8 percent. In view of the fact that the 20-percent defense tax is repealed, this tax rate reverts to a flat 4 percent.

Certain changes were also made in the medical-expense deduction. The maximum medical-expense deduction which can be taken by a single person was increased from \$750 to \$1,500; that for a married couple from \$1,000 to \$2,000; and that for dependents, from \$250 to \$500, although not more than \$2,000 is to be deductible on any one return, or by a husband and wife although filing separate returns. Also, the medical-expense deduction is to be allowed even though liability for the payment was incurred in a different year from that in which the payment was made. Mr. Abbott also indicated that Canada would continue the policy of allowing the deduction only of medical expenses in excess of 4 percent of income even though the

<sup>9</sup> Perry, J. Harvey, *Taxation in Canada*, sponsored by the Canadian Tax Foundation, University of Toronto Press (1951), p. 50.



House of Commons had previously passed a special resolution requesting that all medical expenses be deductible.

Mr. Abbott gave the following explanation of the proposal raising the maximum amounts of medical expenses which may be deducted:

The existing maximum limits on the amount of medical expenses that may be deducted were established some time ago and there is evidence that these limits are imposing undue hardship in many instances of prolonged or serious illness, especially in cases where certain new and more expensive kinds of treatment are required.<sup>10</sup>

The Finance Minister also gave the following explanation of why he was not following the suggestion that all medical expenses be made deductible:

I gave most careful consideration to the suggestion contained in the resolution passed by this house that the provisions of the law limiting the deductible medical expenses to those in excess of 4 percent of income should be removed. However, I feel strongly that the normal personal and living expenses of a taxpayer should never be deductible from income for taxation purposes. The requirement that only medical expenses in excess of 4 percent of income are deductible will be retained, therefore, as a means of limiting, and I think properly so, the application of this provision to medical expenses of an unusual degree in accordance with the original purpose.<sup>11</sup>

The Federal Government of the United States allows the deduction of medical expenses only when they are in excess of 5 percent of adjusted gross income. The maximum medical expense deduction that may be taken on a Federal United States income tax return is \$1,250 per person claimed as an exemption on the tax return, with a maximum of \$5,000 in the case of a joint return, or \$2,500 in the case of other returns.

Certain other changes are also to be made in Canada's income tax. These include changes in the special tax system provided for the Armed Forces, the allowance of a deduction for payments under "terminal funding" pension plans, the introduction of greater flexibility in provisions governing the deductibility of employers' contributions with respect to employees' past services in the case of pension plans, and other minor technical amendments.

The changes in the individual income tax, primarily the rate changes, are expected to reduce revenues by \$40 million in the fiscal year ending March 31, 1953, and by \$65 million in a full year of operation. Thus, the forecast of revenues from individual income taxes for the fiscal year 1953 (excluding old-age security taxes) is reduced from \$1,300 million to \$1,260 million.

Table 7 compares the individual income tax burdens in Canada under existing law with the proposals for the calendar years 1952 and 1953. This table shows the tax burdens imposed on single persons and on married couples with two children both assuming the children are eligible for family allowances and that they are not eligible. These allowances amount to approximately \$72 per year per child, but, in those cases where they are granted, the dependency allowance under the income tax is reduced from the \$400 otherwise allowable to \$150. This table does not take into account the special income tax of 1 percent in 1952 (maximum \$30) and 2 percent in 1953 (maximum \$60) to be set aside for the old-age security plan.

<sup>10</sup> House of Commons Debates, op. cit., p. 1255.

<sup>11</sup> Ibid., p. 1255.



TABLE 7.—Comparison of individual income-tax burdens imposed by the Government of Canada (excluding old-age-security tax) under existing law and under the proposals for 1952 and 1953<sup>1</sup>

## SINGLE PERSON—NO DEPENDENTS

Net income <sup>2</sup> (after deductions but before exemptions)	Amount of tax				Tax changes under proposals			
	Existing law for—		Proposals for—		Percentage increase (+) or decrease (–) in proposed 1952 tax over existing tax for—		Percentage increase (+) or decrease (–) in proposed 1953 tax over existing tax for—	
	1951	1952	1952	1953	1951	1952	1951	1952
\$1,000-----								
\$2,000-----	\$165	\$180	\$175	\$170	+6.1	–2.8	+3.0	–5.6
\$3,000-----	352	384	372	360	+5.7	–3.1	+2.3	–6.3
\$4,000-----	561	612	596	580	+6.2	–2.6	+3.4	–5.2
\$5,000-----	770	840	820	800	+6.5	–2.4	+3.9	–4.8
\$8,000-----	1,540	1,680	1,640	1,600	+6.5	–2.4	+3.9	–4.8
\$10,000-----	2,156	2,352	2,301	2,250	+6.7	–2.2	+4.4	–4.3
\$15,000-----	4,136	4,512	4,406	4,300	+6.5	–2.3	+4.0	–4.7
\$20,000-----	6,556	7,152	6,951	6,750	+6.0	–2.8	+3.0	–5.6
\$25,000-----	9,031	9,852	9,551	9,250	+5.8	–3.1	+2.4	–6.1
\$50,000-----	23,995	26,177	25,195	24,354	+5.0	–3.8	+1.5	–7.0
\$100,000-----	59,085	64,457	61,960	60,004	+4.9	–3.9	+1.6	–6.9
\$500,000-----	403,770	440,477	422,540	408,344	+4.6	–4.1	+1.1	–7.3
\$1,000,000--	865,770	944,477	897,540	858,344	+3.7	–5.0	–.9	–9.1

MARRIED COUPLE, 2 DEPENDENTS OF FAMILY ALLOWANCE AGE<sup>3</sup>

\$2,000-----	–\$144	–\$144	–\$144	–\$144	-----	-----	-----	-----
\$3,000-----	–28	–18	–21	–25	+25.0	–16.7	+10.7	–38.9
\$4,000-----	152	179	169	159	+11.2	–5.6	+4.6	–11.2
\$5,000-----	354	400	385	370	+8.8	–3.8	+4.5	–7.5
\$8,000-----	1,037	1,145	1,113	1,081	+7.3	–2.8	+4.2	–5.6
\$10,000-----	1,596	1,754	1,710	1,666	+7.1	–2.5	+4.4	–5.0
\$15,000-----	3,420	3,744	3,658	3,571	+7.0	–2.3	+4.4	–4.6
\$20,000-----	5,769	6,306	6,131	5,956	+6.3	–2.8	+3.2	–5.6
\$25,000-----	8,244	9,006	8,731	8,456	+5.9	–3.1	+2.6	–6.1
\$50,000-----	23,065	25,175	24,232	23,430	+5.1	–3.7	+1.6	–6.9
\$100,000-----	58,012	63,299	60,854	58,950	+4.9	–3.9	+1.6	–6.9
\$500,000-----	402,482	439,085	421,213	407,082	+4.7	–4.1	+1.1	–7.3
\$1,000,000--	864,482	943,085	896,213	857,082	+3.7	–5.0	–.9	–9.1

## MARRIED COUPLE, 2 DEPENDENTS NOT ELIGIBLE FOR FAMILY ALLOWANCE

\$2,000-----								
\$3,000-----	\$33	\$36	\$35	\$34	+6.1	–2.8	+3.0	–5.6
\$4,000-----	202	221	214	208	+5.9	–3.2	+3.0	–5.9
\$5,000-----	394	430	417	404	+5.8	–3.0	+2.5	–6.0
\$8,000-----	1,060	1,157	1,128	1,100	+6.4	–2.5	+3.8	–4.9
\$10,000-----	1,597	1,742	1,701	1,660	+6.5	–2.4	+3.9	–4.7
\$15,000-----	3,344	3,648	3,569	3,490	+6.7	–2.2	+4.4	–4.3
\$20,000-----	5,665	6,180	6,015	5,850	+6.2	–2.7	+3.3	–5.3
\$25,000-----	8,140	8,880	8,615	8,350	+5.8	–3.0	+2.6	–6.0
\$50,000-----	22,889	24,970	24,045	23,258	+5.1	–3.7	+1.6	–6.9
\$100,000-----	57,781	63,034	60,612	58,728	+4.9	–3.8	+1.6	–6.8
\$500,000-----	402,169	438,730	420,886	406,780	+4.7	–4.1	+1.1	–7.3
\$1,000,000--	864,169	942,730	895,886	856,780	+3.7	–5.0	–.9	–9.1

<sup>1</sup> In Canadian dollars which differ only slightly from United States dollars.<sup>2</sup> Assumes all income up to \$30,000 is earned, and income over \$30,000 is investment income. No account has been taken of the 10 percent credit on dividends received from Canadian corporations.<sup>3</sup> Takes into account family allowance of \$72 per year for each child under 16 years of age. Minus dollar amounts indicate that the family allowances exceed the income tax by the amounts shown.

Table 8 compares the effective rates of individual income tax imposed by the National Government of Canada under existing law and under the proposals for 1952 and 1953 with those presently imposed by the Federal Government of the United States. As in the case of table 7, this table shows effective rates both for those eligible and not eligible for family allowances. The old-age-security tax is omitted from the effective rates shown for Canada since the social-security payroll taxes could not be included for United States in a table of this type. An examination of this table reveals that for single persons both the old and new Canadian effective tax rates in the case of individuals with incomes of \$100,000 or less is always lower than the effective tax imposed by the Federal Government of the United States and above \$100,000 the tax rates which will be in effect in 1953 are lower than those presently imposed by the Federal Government of the United States. The 1953 Canadian effective rate of tax for a single person with a net income of \$2,000 is 7 percentage points below that imposed in the United States. The difference for succeeding income levels decreases up to an income level of \$15,000; above \$15,000 the difference increases, reaching 9.7 percentage points at an income level of \$100,000. Above \$100,000 the difference again narrows.

TABLE 8.—*Comparison of effective rates of individual income tax (excluding old-age security tax <sup>1</sup>) of the Government of Canada under existing law for 1952 and under the budget proposals for 1952 and 1953 with those presently imposed by the Federal Government in the United States*

## SINGLE PERSON—NO DEPENDENTS

Net income (after deductions but before exemptions) <sup>1</sup>	National Government of Canada			Federal Govern- ment of United States existing law
	Existing law	Budget proposals		
		1952	1953	
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
\$600-----				
\$800-----				5. 6
\$1,000-----				8. 9
\$2,000-----	9. 0	8. 8	8. 5	15. 5
\$3,000-----	12. 8	12. 4	12. 0	18. 1
\$4,000-----	15. 3	14. 9	14. 5	19. 7
\$5,000-----	16. 8	16. 4	16. 0	21. 0
\$8,000-----	21. 0	20. 5	20. 0	24. 9
\$10,000-----	23. 5	23. 0	22. 5	27. 3
\$15,000-----	30. 1	29. 4	28. 7	33. 1
\$20,000-----	35. 8	34. 8	33. 8	38. 8
\$25,000-----	39. 4	38. 2	37. 0	43. 8
\$50,000-----	52. 4	50. 4	48. 7	56. 9
\$100,000-----	64. 5	62. 0	60. 0	69. 7
\$500,000-----	88. 1	84. 5	81. 7	87. 2
\$1,000,000-----	94. 4	89. 8	85. 8	<sup>3</sup> 88. 0

MARRIED COUPLE, 2 DEPENDENTS OF FAMILY ALLOWANCE AGE <sup>4</sup>

	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	
\$2,000-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	
\$3,000-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	4. 4
\$4,000-----	4. 5	4. 2	4. 0	8. 9
\$5,000-----	8. 0	7. 7	7. 4	11. 5
\$8,000-----	14. 3	13. 9	13. 5	16. 0
\$10,000-----	17. 5	17. 1	16. 7	17. 7
\$15,000-----	25. 0	24. 4	23. 8	21. 6
\$20,000-----	31. 5	30. 7	29. 8	25. 0
\$25,000-----	36. 0	34. 9	33. 8	28. 0
\$50,000-----	50. 4	48. 5	46. 9	42. 2
\$100,000-----	63. 3	60. 9	59. 0	56. 0
\$500,000-----	87. 8	84. 2	81. 4	82. 2
\$1,000,000-----	94. 3	89. 6	85. 7	87. 1

## MARRIED COUPLE, 2 DEPENDENTS (NOT ELIGIBLE FOR FAMILY ALLOWANCE)

\$2,000-----				
\$3,000-----	1. 2	1. 2	1. 1	4. 4
\$4,000-----	5. 5	5. 4	5. 2	8. 9
\$5,000-----	8. 6	8. 3	8. 1	11. 5
\$8,000-----	14. 5	14. 1	13. 8	16. 0
\$10,000-----	17. 4	17. 0	16. 6	17. 7
\$15,000-----	24. 3	23. 8	23. 3	21. 6
\$20,000-----	30. 9	30. 1	29. 3	25. 0
\$25,000-----	35. 5	34. 5	33. 4	28. 0
\$50,000-----	49. 9	48. 1	46. 5	42. 2
\$100,000-----	63. 0	60. 6	58. 7	56. 0
\$500,000-----	87. 7	84. 2	81. 4	82. 2
\$1,000,000-----	94. 3	89. 6	85. 7	87. 1

<sup>1</sup> The old-age security tax in Canada in 1952 is 1 percent with a maximum of \$30, and in 1953 is 2 percent with a maximum of \$60.

<sup>2</sup> Assumes all income up to \$30,000 is earned and income over \$30,000 is investment income. No account has been taken of the 10-percent credit on dividends received from Canadian corporations.

<sup>3</sup> Takes into account the maximum effective rate limitation of 88 percent.

<sup>4</sup> Takes into account family allowance of \$72 per year for each child under 16 years of age.

<sup>5</sup> Negative effective rates. The family allowances exceed the income tax by the amounts shown on table 7.



For married couples with children both the old and the new Canadian effective tax rates are above those imposed in United States beginning at an income level between \$10,000 and \$15,000, and extending up to an income level approaching \$100,000. This is true irrespective of whether the dependents in Canada are of family-allowance age or not. Above \$100,000 the old rates as well as the new rates for 1952 in Canada are above those presently imposed by the United States. The fact that effective rates for married couples in Canada are generally above the rates imposed on married couples in the United States, while the reverse is true in the case of single individuals, can be accounted for by the income-splitting provision in the United States tax laws, which Canada does not have. Canada's proposed rate for married couples with two children in 1953 is about 5½ percentage points above that imposed in the United States at an income level of \$25,000. This is the maximum percentage point difference between the two rate structures for the income levels shown and is the point at which income splitting provides the maximum percentage differential under United States tax laws.

Table 9 compares the proposed marginal rates of individual income tax imposed by the National Government of Canada for 1953 with those presently imposed by the Federal Government of the United States. The Canadian marginal rates shown exclude the old-age and security tax, and the United States rates are shown separately for a single person, a head of household, and a married couple filing a joint return. The beginning marginal rate in Canada in 1953 will be 17 percent as contrasted to 22.2 percent in the United States, or the Canadian rate will be 5.2 percentage points below that of the United States. The top rate in Canada of 86 percent will be 6 percentage points below the 92 percent top rate in the United States. The marginal rates applicable to single persons in the United States are in all brackets above those applicable in Canada; the rates applicable to heads of households in the United States are above those in Canada except in the income brackets from \$6,000 to \$20,000; and the rates applicable to married couples filing joint returns in United States are above those rates applicable in Canada except in the income brackets from \$4,000 to \$32,000, from \$35,000 to \$40,000, and from \$75,000 to \$76,000.

TABLE 9.—*Comparison of the proposed marginal rates of individual income tax (excluding old age security tax<sup>1</sup>) in the Government of Canada for 1953 with those presently imposed by the Federal Government in United States*

Taxable income <sup>2</sup>	Canada <sup>3</sup>	United States		
		Single person	Head of household	Married couple filing a joint return
	Percent	Percent	Percent	Percent
\$0 to \$1,000.....	17	22. 2	22. 2	22. 2
\$1,000 to \$2,000.....	19	22. 2	22. 2	22. 2
\$2,000 to \$4,000.....	22	24. 6	23. 4	22. 2
\$4,000 to \$6,000.....	25	29	27	24. 6
\$6,000 to \$8,000.....	30	34	29	24. 6
\$8,000 to \$10,000.....	35	38	34	29
\$10,000 to \$12,000.....	40	42	35	29
\$12,000 to \$14,000.....	45	48	41	34
\$14,000 to \$15,000.....	45	53	44	34
\$15,000 to \$16,000.....	50	53	44	34
\$16,000 to \$18,000.....	50	56	47	38
\$18,000 to \$20,000.....	50	59	48	38
\$20,000 to \$22,000.....	50	62	52	42
\$22,000 to \$24,000.....	50	66	54	42
\$24,000 to \$25,000.....	50	66	57	48
\$25,000 to \$26,000.....	55	66	57	48
\$26,000 to \$28,000.....	55	67	57	48
\$28,000 to \$32,000.....	55	67	60	53
\$32,000 to \$35,000.....	55	68	63	56
\$35,000 to \$36,000.....	60	68	63	56
\$36,000 to \$38,000.....	60	68	63	59
\$38,000 to \$40,000.....	60	72	66	59
\$40,000 to \$44,000.....	60	72	66	62
\$44,000 to \$50,000.....	60	75	71	66
\$50,000 to \$52,000.....	65	77	72	66
\$52,000 to \$60,000.....	65	77	72	67
\$60,000 to \$64,000.....	65	80	73	67
\$64,000 to \$70,000.....	65	80	73	68
\$70,000 to \$75,000.....	65	83	77	68
\$75,000 to \$76,000.....	70	83	77	68
\$76,000 to \$80,000.....	70	83	77	72
\$80,000 to \$88,000.....	70	85	79	72
\$88,000 to \$90,000.....	70	85	79	75
\$90,000 to \$100,000.....	70	88	81	75
\$100,000 to \$120,000.....	75	90	85	77
\$120,000 to \$140,000.....	75	90	85	80
\$140,000 to \$150,000.....	75	90	85	83
\$150,000 to \$160,000.....	80	91	88	83
\$160,000 to \$180,000.....	80	91	88	85
\$180,000 to \$200,000.....	80	91	88	88
\$200,000 to \$250,000.....	80	92	91	90
\$250,000 to \$300,000.....	86	92	91	90
\$300,000 to \$400,000.....	86	92	92	91
\$400,000 and over.....	86	92	92	92

<sup>1</sup> The old age security tax in Canada in 1952 is 1 percent with a maximum of \$30, and in 1953 is 2 percent with a maximum of \$60.

<sup>2</sup> Income after deductions and exemptions.

<sup>3</sup> Rates shown are those for earned income.

In view of the fact that the Canadian Provinces do not levy individual income taxes, the previous tables do not present an accurate comparison of the tax burdens in Canada and in United States in the case of persons living in States also imposing an income tax. For that reason table 10 is inserted comparing the income tax burdens on individuals under the proposed rates in Canada for 1953 and subsequent years with those presently imposed by the Federal Government in the United States and selected States.

TABLE 10.—*Individual income-tax burdens proposed in the financial statement for the Government of Canada (excluding the old-age security tax) and under the combined existing United States Federal and State income-tax laws in selected States*

## SINGLE PERSON—NO DEPENDENTS

Net income (after deductions but before exemptions) <sup>1</sup>	Canada (1953 rates) <sup>2</sup>	United States and New York	United States and California	United States and Virginia	United States and North Carolina
\$600					
\$800		\$44	\$44	\$44	\$44
\$1,000		89	89	89	89
\$2,000	\$170	329	311	331	341
\$3,000	360	587	552	582	602
\$4,000	580	860	808	848	888
\$5,000	800	1,160	1,082	1,142	1,192
\$8,000	1,600	2,226	2,062	2,212	2,292
\$10,000	2,250	2,940	2,796	2,926	2,988
\$15,000	4,300	5,290	5,081	5,244	5,343
\$20,000	6,750	8,161	7,934	8,098	8,217
\$25,000	9,250	11,378	11,161	11,304	11,436
\$50,000	24,354	29,182	28,999	29,046	29,269
\$100,000	60,004	70,409	70,304	70,266	70,493
\$500,000	408,344	438,661	438,494	438,150	438,941
\$1,000,000	858,344	<sup>3</sup> 887,525	<sup>3</sup> 887,096	<sup>3</sup> 885,978	<sup>3</sup> 888,365

MARRIED COUPLE—2 DEPENDENTS OF FAMILY ALLOWANCE AGE <sup>4</sup>

\$2,000	—\$144				
\$3,000	—25	\$133	\$133	\$145	\$145
\$4,000	159	368	355	387	397
\$5,000	370	614	584	629	653
\$8,000	1,081	1,415	1,319	1,432	1,492
\$10,000	1,666	1,940	1,822	1,962	2,018
\$15,000	3,571	3,574	3,349	3,566	3,666
\$20,000	5,956	5,513	5,203	5,465	5,619
\$25,000	8,456	7,666	7,314	7,584	7,786
\$50,000	23,430	22,012	21,765	21,853	22,141
\$100,000	58,950	57,499	57,280	57,220	57,682
\$500,000	407,082	413,709	413,543	413,204	413,992
\$1,000,000	857,082	876,229	875,943	875,204	876,792

## MARRIED COUPLE—2 DEPENDENTS NOT ELIGIBLE FOR FAMILY ALLOWANCE

\$2,000					
\$3,000	\$34	\$133	\$133	\$145	\$145
\$4,000	208	368	355	387	397
\$5,000	404	614	584	629	653
\$8,000	1,100	1,415	1,319	1,432	1,492
\$10,000	1,660	1,940	1,822	1,962	2,018
\$15,000	3,490	3,574	3,349	3,566	3,666
\$20,000	5,850	5,513	5,203	5,465	5,619
\$25,000	8,350	7,666	7,314	7,584	7,786
\$50,000	23,258	22,012	21,765	21,843	22,141
\$100,000	58,728	57,499	57,280	57,220	57,682
\$500,000	406,780	413,709	413,543	413,204	413,992
\$1,000,000	856,780	876,229	875,943	875,204	876,792

<sup>1</sup> Under \$10,000 assumed to be the same for both Federal and State tax purposes. For classes \$10,000 and over the net income for State tax purposes is that shown with the Federal tax being computed on the net income less State tax paid. Income and tax burdens for Canada are in Canadian dollars, and for United States and selected States are in United States dollars.

<sup>2</sup> Assumes all income up to \$30,000 is earned and income over \$30,000 is investment income. No account has been taken of the 10 percent credit on dividends received from Canadian corporations.

<sup>3</sup> Taking into account the Federal maximum effective rate limitation of 88 percent.

<sup>4</sup> Takes into account family allowance of \$72 per year for each child under 16 years of age. Minus signs indicate that the family allowances exceed the income tax by the amounts shown.



## (B) CORPORATE TAXES

For 1951 corporations in Canada paid an income tax of 15 percent to the National Government on the first \$10,000 of net income, and 38 percent, plus a 20-percent defense surcharge on the tax otherwise due, on net income in excess of \$10,000. These latter rates gave a combined rate of 45.6 percent on profits over \$10,000. In addition, on January 1, 1952, corporations became subject to a 2-percent tax to be set aside for the old-age security program. This liability arose from the enactment of the Old Age Security Act in 1951. Thus, Canadian corporations in 1952 before the enactment of any legislation arising from the proposals in the financial statement would have been liable to a 17-percent tax of the first \$10,000 of their income and a tax of 47.6 percent on income in excess of \$10,000.

The corporate income tax in the eight Provinces with which the Government of Canada has tax agreements is 5 percent, and 7 percent in Ontario and Quebec. Thus, in 8 Provinces the combined National and Provincial income tax is 22 percent on the first \$10,000 of net income, and 52.6 percent on the net income in excess of \$10,000. In the remaining two Provinces the combined corporate income tax is 24 percent on the first \$10,000 of profits and 54.6 percent on any remaining profits.

Mr. Abbott indicates that the 8 Provinces with which the Central Government has tax agreements will be asked to drop their corporate income tax of 5 percent, and that the National Government will increase its corporate income tax rates on the first \$10,000 of net income by 5 percentage points, and on income over \$10,000, by 4.4 percentage points. The Central Government's rate on the first \$10,000 of profits will be raised from 17 percent to 22 percent, or if the old-age-security tax is omitted, from 15 percent to 20 percent; for income in excess of \$10,000, the tax rate will be raised from 47.6 percent to 52 percent, or from 45.6 percent to 50 percent if the old-age-security tax is omitted. In the case of corporations in Ontario and Quebec a 5-percent tax credit is to be given against the National Government's tax. The additional amount collected by the Central Government as a result of absorbing the Provincial corporate income taxes is expected to be about \$35 million on a full year basis, and this amount will be added to the payments made to the Provinces.

The over-all effect of the corporate rate change will actually be a slight loss in funds available for the general expenditures of the National Government, since the combined tax rate (including the old-age-security tax) on income in excess of \$10,000 is decreased from 52.6 percent to 52 percent in the case of the eight Provinces with tax agreements, and from 54.6 percent to 54 percent in the case of Ontario and Quebec. Table 11 compares the corporate income tax effective rates in Canada under prior law with those proposed in the financial statement. The financial statement indicates that—

This change will be essentially one of form rather than substance, and is designated to simplify the administrative procedures.<sup>12</sup>

<sup>12</sup> House of Commons Debates, op. cit., p. 1252.

TABLE 11.—*Comparison of corporate income tax effective rates in Canada under existing law with those proposed in the financial statement*

Net income	Existing law for 1952 and subsequent years						National Government proposal for 1952 and subsequent years <sup>2</sup>		
	National Government tax rate			National and Provincial Governments <sup>1</sup>			Excluding old-age security tax	Old-age security tax	Total
	Excluding old-age security tax	Old-age security tax	Total	Excluding old-age security tax	Old-age security tax	Total			
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
\$5,000-----	15.0	2.0	17.0	20.0	2.0	22.0	20.0	2.0	22.0
\$10,000-----	15.0	2.0	17.0	20.0	2.0	22.0	20.0	2.0	22.0
\$15,000-----	25.2	2.0	27.2	30.2	2.0	32.2	30.0	2.0	32.0
\$20,000-----	30.3	2.0	32.3	35.3	2.0	37.3	35.0	2.0	37.0
\$25,000-----	33.4	2.0	35.4	38.4	2.0	40.4	38.0	2.0	40.0
\$50,000-----	39.5	2.0	41.5	44.5	2.0	46.5	44.0	2.0	46.0
\$100,000-----	42.5	2.0	44.5	47.5	2.0	49.5	47.0	2.0	49.0
\$500,000-----	45.0	2.0	47.0	50.0	2.0	52.0	49.4	2.0	51.4
\$1,000,000-----	45.3	2.0	47.3	50.3	2.0	52.3	49.7	2.0	51.7
\$5,000,000-----	45.5	2.0	47.5	50.5	2.0	52.5	49.9	2.0	51.9

<sup>1</sup> An additional 2 percent corporate income tax is imposed by the Provinces of Quebec and Ontario.

<sup>2</sup> For 1952 and subsequent years there is to be no Provincial corporate income taxes in the case of the eight Provinces with which the National Government has tax agreements. However, the revenue derived by the National Government from 5 percentage points of the corporate tax will be turned over to these Provinces. In the case of corporations in Ontario and Quebec where 7 percent corporate income taxes are imposed, the National Government will allow a tax credit equal to 5 percentage points.

In his discussion of corporate income-tax rates, Mr. Abbott also had this general comment to make with respect to the present level of corporate income taxes:

Quite frankly, I am concerned that conditions make it necessary to maintain in our tax structure rates as high as this on business profits. My main concern is not with the current year or even possibly with next year. The ill effects of too high taxes can perhaps be endured for a year or two. But as I said last year, excessive rates of tax on corporate incomes if long maintained can do grave damage to the economy as a whole, and I say quite candidly that if I had more leeway for tax abatement it is to income taxes, both corporate and personal, that I would give first consideration.<sup>13</sup>

The finance statement indicates that two other important changes are also to be made in the corporate tax structure. These involve the tax treatment accorded certain public utility companies and Government corporations. Public utility companies whose main business is "the distribution to, or generation for distribution to, the public of electrical energy, gas or steam"<sup>14</sup> will be entitled to a deduction which will have the effect of reducing their income tax from a rate of 50 percent to a rate of 43 percent. This excludes the 2 percent old age security tax which will raise the maximum over-all tax rate for these public utilities from 43 percent to 45 percent. This special tax treatment is to be made available to these public utilities only on that part of their taxable income which is derived from the distribution or generation of electrical energy, gas or steam. Moreover, the formula

<sup>13</sup> Ibid., p. 1252.

<sup>14</sup> Ibid., p. 1253.



will afford relief only as long as the regular corporate rate remains at a high level. Under this formula the amount of relief will decrease as the corporate rate is lowered, and once the corporate rate, exclusive of the old age security tax, reaches 43 percent, the formula will no longer provide any special relief. The following quotations from the financial statement indicate Mr. Abbott's reasons for providing the special tax treatment.

The House will recall that in my budget speech a year ago, I expressed special concern over the effect of our present high corporate tax rate on certain public utility companies which are forced by the nature of their business and their franchises to raise large amounts of capital to finance expansion of services required to be performed for the public, and which because of public control of rates are allowed to earn only a modest return on their capital. \* \* \* (This is the) group of companies which for a variety of reasons finds the greatest difficulty in securing adequate income to attract the heavy volume of capital required to keep pace with public demand.<sup>15</sup>

In Canada, as in the United States, "crown corporations" or Government corporations have been entirely exempt from income tax. In Canada, in the future, crown corporations of the Central Government which are "proprietary" in character will pay corporate income tax to the Central Government in the same manner as any privately owned corporation. "Proprietary" is defined here as meaning companies which are carrying on business operations similar to, and in competition with, private business. The Financial Administration Act of December 21, 1952,<sup>16</sup> lists the following proprietary corporations: Canadian Broadcasting Corporation, Canadian Farm Loan Board, Canadian National (West Indies) Steamships Limited, Canadian Overseas Telecommunications Corporation, Central Mortgage and Housing Corporation, Eldorado Mining and Refining (1944) Limited, Exports Credits Insurance Corporation, National Railways, Northern Transportation Company (1947) Limited, Northwest Territories Power Commission, Polymer Corporation Limited, and Trans-Canada Air Lines.

Mr. Abbott gives the following explanation for this change:

One desirable result of this proposed action will be to make the financial statements of these crown companies more comparable with private industry, and make it easier to assess the relative efficiency of their operations. I do not expect this change to have appreciable net revenue effects. It will increase our tax receipts and reduce our nontax revenue. All crown company profits eventually find their way into the treasury, and many of them already remit all or the greater part of their profits year by year.<sup>17</sup>

In the case of the extractive industries, one more year is added to the period in which certain special tax benefits are made available to these industries. Prior to World War II the deduction of exploration expenses was limited to expenses incurred for the extension of a known body of ore or oil structure. It was not allowed when exploration was "off property." During the war the deduction was extended to "off property" exploration expenses and since World War II the application of this provision has been continued to include "off property" expenditures made through 1954.<sup>18</sup> Also at the present time new mines coming into production through 1954 are allowed an exemption from income tax during the first 3 years of operation. The application

<sup>15</sup> Ibid., p. 1253.

<sup>16</sup> Statutes of Canada, 2d Session, Ch. 12, Schedule D.

<sup>17</sup> House of Commons Debates, op. cit., p. 1253.

<sup>18</sup> See Taxation in Canada, op. cit., p. 70, for an explanation of the "off property" exploration expense deduction.



of both of these provisions is extended to include events occurring in 1955.

Last year the right to deduct depreciation (which is not a statutory right but is allowed by regulations) on newly acquired capital assets was deferred for a period of 4 years except when the assets are acquired (a) for use by certain public utilities, for gas- and oil-well operations, for lumbering, or for patents and franchises; or (b) for the use by individuals in farming, fishing, or professional service; or (c) where the immediate depreciation is authorized by the Minister of Trade and Commerce. The authorizations referred to are made where the assets are acquired (a) for defense purposes; (b) for farming, fishing, mining, petroleum, lumber, and pulp and paper operations, or (c) for direct use in a transportation or communication business. Newly acquired assets which do not fall in any of these categories are depreciated over the normal period, but the deduction does not begin until 4 years after acquisition. Mr. Abbott indicated that no changes in the principle of these regulations are presently contemplated, although he stated that he dislikes regulations of this type and that he will be glad to modify or withdraw them when the proper time comes. He indicates that the regulations are being continued because they are playing an important part in restraining capital investment which is of a nonessential character, and in directing investment which is made, toward essential ends.

The adjustments in the corporate income tax rate are expected to increase revenues of the Government of Canada in the fiscal year ending March 31, 1953, by \$13 million, and in a full year of operation, by \$17 million. However, if the increase in revenue attributable to the incorporation in the national corporate income tax of the 5 percent Provincial corporate income taxes (which will also increase expenditures by a like amount) is omitted, the effect of the corporate tax adjustment of six-tenths of one percentage point is a \$12 million decrease in revenues in the fiscal year 1953, and an \$18 million decrease in a full year of operation.

Table 12 compares the proposed corporate income tax effective rates for Canada with those presently imposed in the United States by the Federal Government and selected States. For the United States, the combined Federal and State taxes are used in this comparison since Canada, with the exception of Ontario and Quebec, is to have no Provincial corporate income taxes. The effective rates shown for Canada include the 2 percentage points which are to be set aside in a separate fund for old-age security purposes, although the rates shown for the United States do not include the employers' payroll tax for old-age and survivors insurance. The payroll tax in the United States is an excise tax which can be treated in the same manner as other business costs and bears no relationship to income. The Canadian old-age tax, on the other hand, is a levy on net income. Two other factors should also be kept in mind in comparing the effective rates shown for the United States and Canada: The United States imposes a 30 percent excess profits tax in addition to the corporate income tax, while Canada imposes no such tax, and Canada allows stockholders to take a tax credit equal to 10 percent of the dividends received for the tax paid by the corporation, while the United States allows no such tax credit. An examination of table 12 reveals that the effective rates imposed on corporations in Canada

are below those imposed by the United States Federal Government alone in the case of incomes of \$10,000 or less, and above the United States rates in practically all of the remaining income brackets up to an income level of \$5,000,000. Canada's lower initial rate, 22 per cent, as against 30 per cent in the United States, accounts for its lower rate on small incomes, but the fact that this special rate applies only to the first \$10,000 of income in Canada, while applying to the first \$25,000 of income in the United States, results in a higher Canadian effective rate in Canada for corporations with larger incomes. When State taxes are also added to the Federal income tax in the United States, the advantage which corporations with incomes between \$15,000 and \$100,000 have over those in Canada is decreased considerably and in some cases is eliminated.

TABLE 12.—*Comparison of the proposed Canadian corporate income tax effective rates with those presently imposed in the United States by the Federal Government and selected States*

Net income <sup>1</sup>	Canada <sup>2</sup>	Federal Government of United States	United States and New York	United States and California	United States and North Carolina	United States and Virginia
	Percent	Percent	Percent	Percent	Percent	Percent
\$5,000-----	22.0	30.0	33.9	32.8	34.2	33.5
\$10,000-----	22.0	30.0	33.9	32.8	34.2	33.5
\$15,000-----	32.0	30.0	33.9	32.8	34.2	33.5
\$20,000-----	37.0	30.0	33.9	32.8	34.2	33.5
\$25,000-----	40.0	30.0	33.9	32.8	34.2	33.5
\$50,000-----	46.0	41.0	43.6	42.9	43.9	43.4
\$100,000-----	49.0	46.5	49.1	48.4	49.4	48.9
\$500,000-----	51.4	50.9	53.5	52.8	53.8	53.3
\$1,000,000-----	51.7	51.5	54.1	53.4	54.3	53.9
\$5,000,000-----	51.9	51.9	54.5	53.8	54.8	54.3

<sup>1</sup> In computing the combined Federal and State tax in United States the net income shown is that for State tax purposes and the net income for Federal tax purposes is that shown less the State corporate tax.

<sup>2</sup> Includes a 2 percentage point tax which is set aside in a separate fund for old-age security but the United States tax does not include the pay-roll tax for old-age and survivors' insurance. In Ontario and Quebec the combined National and Provincial corporate income taxes is 2 percentage points higher than that shown.

### (C) SALES TAX

Canada has long used a manufacturers' sales tax as a major source of national revenue. The rate of this tax last year was raised from 8 percent to 10 percent effective April 11, 1951. Later in 1951, the Old Age Security Act provided that the revenue derived from these two additional percentage points was to be set aside for old-age security benefits and not appear as general budgetary revenues.

Only minor changes are made in the sales tax this year. The exemptions already provided for most foods are extended to include drinks prepared from milk or eggs, preserved fruits, and cooking oils and salad oils, but not mayonnaise or salad dressing. The exemptions presently provided for business-cost items are extended to include bailing wire used for bailing farm produce, steel pens for farm animals, preservatives for use exclusively in treating nets, ropes, and lines used in the fishing industry, clays and earth for use exclusively as filtering



materials in the refining of petroleum oils, and certain items defined in the tariff acts. These items include machinery used for logging operations, certain railroad repair equipment, and certain surgical equipment.

#### (D) EXCISE TAXES

The National Canadian Government also imposes a series of specific manufacturers' excise taxes which are in addition to, and not a substitute for, the general sales tax. These excises include taxes on tobacco and alcoholic beverages, which are specific, and ad valorem excises which in general are imposed at one of three rates: 15 percent, 25 percent, or 30 percent. The combined excise tax and duty on cigarettes last year was increased from 20 cents to 23 cents per standard pack but no change was made at that time in the excises on alcoholic beverages. The principal items taxable at the 15 percent rate are stoves, washing machines, and electric refrigerators. These items were made taxable in 1951. The 15 percent tax rate also applies to candies and chewing gum, which were made subject to excise tax in 1950. The 25 percent tax rate applies to a wide range of items similar in character to the manufacturers' and retail excise taxes imposed by the Federal Government in the United States. Prior to September 1950 these items were taxed at a rate of 10 percent; at that time the rate was raised to 15 percent; and in April 1951 the rate was raised to 25 percent. The 30 percent rate category includes only soft drinks, although it formerly also applied to candies and chewing gum. This tax was first imposed in September 1950.

Effective as of April 9, 1952, the items previously taxable at a 25 percent rate are now taxed at 15 percent, the 30 percent tax rate applying to soft drinks is reduced to 15 percent, and the 15 percent rate applicable to stoves, washing machines, and electric refrigerators is eliminated. However, the 15 percent tax on candies and chewing gum is retained. The combined excise tax and duty on cigarettes is reduced from 23 cents per standard pack to 20 cents per standard pack, and that on raw leaf tobacco is reduced from 40 cents per pound to 28 cents per pound. Information as to the old and new excise tax rates is set out in greater detail in table 13.

TABLE 13.—*Canadian excise taxes affected by the budget proposals*

- I. Items previously taxable at a 25-percent rate, now taxed at a 15-percent rate:
- (1) Toilet preparations, including shaving cream and shaving soap.
  - (2) Luggage, handbags, wallets, toilet cases, trunks, golf and sport bags, and similar items.
  - (3) Jewelry, watches, clocks, and similar items.
  - (4) Furs.
  - (5) Cameras, film, and projectors.
  - (6) Desk accessories and sets, pens, propelling and ink pencils.
  - (7) Smokers' accessories, including lighters, pipes, cigar and cigarette holders, and ashtrays.
  - (8) Golf clubs and golf balls.
  - (9) Firearms, parts, and ammunition not used for police or military purposes.
  - (10) Electrical appliances and equipment adapted to household use, viz, blankets; chafing dishes; coffee makers; curling irons or tongs; dishwashers; food or drink mixers; food choppers and grinders; floor waxers and polishers; garbage-disposal units; hair dryers; irons and ironers; juice extractors; kettles; portable humidifiers; razors and shavers; toasters of all kinds; vacuum cleaners and attachments; and waffle irons; but not including stoves, washing machines, or refrigerators.
  - (11) Automobiles.
  - (12) Motorcycles and other 2- or 3-wheeled motor-driven vehicles including motors for attachment to bicycles.
  - (13) Radios, phonographs, and television sets.
  - (14) Fishing rods and fishing reels.
  - (15) Tires and tubes.
  - (16) Matches.
  - (17) Coin-operated machines, including slot machines.
  - (18) China, earthenware, glassware, pewterware, porcelain articles, potteryware, marble articles, and stoneware.
- II. Items previously taxable at a 30-percent rate, now taxed at a 15-percent rate:<sup>1</sup>
- (1) Soft drinks.
- III. Items previously taxable at a 15-percent rate, now tax-free:<sup>2</sup>
- (1) Stoves, hot plates, grills, and other appliances when adapted wholly or in part for cooking and when designed for using other than solid fuels.
  - (2) Washing machines operated by electric or other power.
  - (3) Electric, gas, or kerosene refrigerators and freezing equipment and complete parts therefor including coils, condensing or compressor units, motors, cabinets, boxes, evaporators, and expansion valves.
- IV. Excise and duty on tobacco:<sup>3</sup>
- (1) Cigarettes previously taxed at 23 cents per pack, now taxed at 20 cents per pack.
  - (2) Raw leaf tobacco previously taxed at 40 cents per pound, now taxed at 28 cents per pound.

<sup>1</sup> Dry-mix preparations for household use are added to the tax base and are to be taxed at a 15-percent rate. The tax on carbonic acid gas is reduced from 50 cents to 25 cents per pound.

<sup>2</sup> Candy, chocolate, chewing gum and confectionery that may be classed as candy or a substitute for candy are also presently taxed at a 15-percent rate, and are continued at the same rate under the budget proposals.

<sup>3</sup> The excise tax and duty are imposed only on products of domestic manufacture. Imports are subject to the tariff which compensates for the excise tax and duty and also makes some allowance for the protection of domestic manufacturers. A minor change not listed was also made by the budget proposals in the excise tax on manufactured tobacco.

The Federal Government in the United States taxes most of the items subject to tax in Canada. However, in general, Canada's excise tax rates have been above those of the United States. The disparity in rates is greater than is evident from the selective excises alone since in Canada the items subject to excise tax are also subject to the 10-percent manufacturers' sales tax. While the decreases proposed in the current financial statement reduce the difference between the Canadian excises and those imposed by the Federal Government in the United States, the Canadian excise taxes in general still appear to be somewhat the higher. For ease in making comparisons with United States rates, the items subject to Canadian excise taxes which



are shown in table 13 have been listed according to the rates imposed in the United States. The first four items shown in table 13 under No. I, which in Canada are taxed at a 15 percent excise tax rate (in addition to a 10-percent sales tax rate), are in general taxed at 20 percent in the United States, although the bases of the taxes are not identical. However, in the United States these taxes are levied on the retail price rather than the manufacturers' price, which makes the tax payable considerably higher than is true where the tax is imposed on the manufacturers' price. Cameras and film in item 5 in No. I of table 13 are taxed at a 20-percent rate in the United States and projectors at a 10-percent rate, and in this case the taxes in the United States are also based on the manufacturers' price. Items 6 through 8, under No. I in table 13, to the extent taxed in the United States, are taxed at 15 percent of the manufacturers' price. Fire arms and ammunition in the United States are taxed at 11 percent of the manufacturers' price. Items 10 through 14, under No. I in table 13, to the extent taxed by the United States, are taxed at a rate of 10 percent of the manufacturers' price. Items 15 through 17 are also taxed in the United States, but in these cases the taxes are not ad valorem rates which make comparisons with the Canadian rates difficult. Item 18, china, earthenware, glassware, and so forth, is not subject to excise tax by the Federal Government of the United States. This is also true of soft drinks under No. II in table 13, item 2 in No. III in table 13, and candies and chewing gum. Stoves and refrigerators are taxed in the United States at a rate of 10 percent of the manufacturers' price.

In the case of cigarettes, the new Canadian tax is 20 cents per standard pack. This can be compared to the 8 cents per pack imposed by the Federal Government in the United States. The current rate on distilled spirits in Canada, which is not changed this year, is \$12 per proof gallon. This is the equivalent of a rate of \$8.76 on the type of proof gallon used in the United States. The Federal tax in the United States per proof gallon is \$10.50. In the case of beer in Canada, the tax is imposed on the malt, instead of the beverage, and amounts to 21 cents per pound. This is the equivalent of a tax of 42 cents to 45 cents a gallon on beer, or in terms of United States gallons, amounts to 35 cents to 37½ cents per gallon. The Federal tax in the United States is \$9 per barrel, which is the equivalent of 29 cents per gallon.

The decreases made by Canada in excise taxes are estimated to amount to \$88 million in the fiscal year 1953, and \$97 million in a year of full operation. The breakdown of this revenue loss is shown as follows:

[In millions of dollars]

	Fiscal year 1953	Full year of operation
Excises reduced from 25 to 15 percent.....	58	64
Reduction of excise on soft drinks from 30 to 15 percent.....	10	11
Repeal of 15-percent tax on stoves, washing machines and refrigerators.....	10	11
Reduction from 23 to 20 cents in excises on cigarettes.....	10	11
Total.....	88	97

## V. HISTORICAL RECORD OF RECEIPTS, EXPENDITURES, AND DEBT

Tables 14, 15, 16, and 17 contain certain financial data for Canada in recent years. Table 14 shows total budgetary receipts and expenditures of the National Government with the resulting surplus or deficit; table 15, the National Government's receipts by major revenue sources; table 16, the National Government's outstanding debt; and table 17, the gross national product.

TABLE 14.—*Total net budgetary receipts, expenditures, and surplus (+) or deficit (—) in selected fiscal years of the Government of Canada*

[In millions of dollars]

Fiscal year	Receipts	Expenditures	Surplus (+) or deficit (—)
1939-----	502	553	— 51
1945-----	2, 687	5, 246	—2, 558
1946-----	3, 013	5, 136	—2, 123
1947-----	3, 008	2, 634	+ 374
1948-----	2, 872	2, 196	+ 676
1949-----	2, 771	2, 176	+ 596
1950-----	2, 580	2, 449	+ 132
1951-----	3, 113	2, 901	+ 211
1952 <sup>1</sup> -----	4, 003	3, 647	+ 356
1953 <sup>1</sup> -----	<sup>2</sup> 4, 279	4, 270	+ 9

<sup>1</sup> As estimated in the financial statement.

<sup>2</sup> After proposed tax changes.



TABLE 15.—*Revenue received by the Government of Canada from various sources for the fiscal years 1945-53*

[In millions of dollars]

Source of revenue	1945	1946	1947	1948	1949	1950	1951	1952 <sup>1</sup>	1953 <sup>2</sup>
Individual income tax.....	796.4	719.9	724.7	695.7	806.0	669.5	713.9	1,035.5	1,312.0
Corporation income tax.....	276.4	217.8	239.0	364.1	492.0	603.2	799.2	1,136.0	1,318.0
Excess profits tax.....	465.8	494.2	448.7	227.0	44.8	-1.8	10.1	2.2	( <sup>3</sup> )
Sales tax (net of refunds).....	209.4	212.2	298.2	372.3	377.3	403.4	460.1	602.0	674.0
Excises:									
Liquor.....	73.9	93.3	100.2	100.0	103.2	109.2	131.6	125.3	( <sup>3</sup> )
Tobacco products.....	145.4	168.5	177.5	170.7	183.9	199.5	199.7	212.0	( <sup>3</sup> )
All other.....	269.6	212.4	202.1	197.5	179.1	82.4	139.3	203.8	( <sup>3</sup> )
Total excises.....	488.9	474.2	479.8	468.2	466.2	391.1	470.6	541.1	( <sup>3</sup> )
Less refunds.....	3.4	2.8	3.0	3.0	2.7	2.5	2.9	3.0	( <sup>3</sup> )
Net receipts, excises.....	485.5	471.4	476.8	465.2	463.5	388.6	467.7	538.1	492.0
Succession duties.....	17.3	21.4	23.6	30.8	25.6	29.9	33.6	38.0	43.0
Customs duties.....	115.1	128.9	237.4	293.0	223.0	225.9	295.7	353.0	370.0
All other.....	8.2	9.0	9.7	3.8	4.0	4.4	4.9	5.3	5.0
Total receipts from taxes.....	2,374.1	2,274.9	2,457.9	2,452.1	2,436.1	2,323.1	2,785.4	3,710.0	4,214.0
Nontax revenue, special receipts and credits.....	532.7	810.8	580.2	419.7	335.3	257.0	327.2	314.1	300.0
Total revenue.....	2,906.8	3,085.7	3,038.1	2,871.7	2,771.4	2,580.1	3,112.5	4,024.1	4,514.0
Less income and excess-profits tax refunds.....	219.5	72.5	30.2						
Less old-age security taxes on—									
Sales tax.....								19.0	135.0
Individual income tax.....									52.0
Corporation income tax.....								2.0	48.0
Total net revenue.....	2,687.3	3,013.2	3,007.9	2,871.7	2,771.4	2,580.1	3,112.5	4,003.1	4,279.0

<sup>1</sup> Probable receipts.<sup>2</sup> Estimated, including effects of proposed budget tax changes.<sup>3</sup> Not available.

NOTE.—Figures are rounded and may not add to totals.

TABLE 16.—*Net public debt of the Government of Canada*

Close of fiscal year—	Total in millions of dollars	Per capita
1939 .....	3, 153	\$281
1945 .....	11, 298	934
1947 .....	13, 048	1, 039
1949 .....	11, 776	872
1950 .....	11, 645	844
1951 .....	11, 433	<sup>1</sup> 817
1952 .....	<sup>2</sup> 11, 078	<sup>1</sup> 780
1953 .....	<sup>2</sup> 11, 069	<sup>1</sup> 769

<sup>1</sup> Assuming a population of 14.0 million for 1951, 14.2 million for 1952, and 14.4 million for 1953.<sup>2</sup> Estimated.TABLE 17.—*Gross national product of Canada at market prices for calendar years 1944 through 1950*

[In millions of dollars]

Year:	Amount	Year—Continued	Amount
1944 <sup>1</sup> .....	11, 919	1948 <sup>1</sup> .....	15, 613
1945 <sup>1</sup> .....	11, 810	1949 .....	16, 462
1946 <sup>1</sup> .....	12, 008	1950 .....	18, 122
1947 <sup>1</sup> .....	13, 657	1951 <sup>2</sup> .....	21, 241

<sup>1</sup> Excludes Newfoundland with gross national product of \$175 million in 1948.<sup>2</sup> Preliminary.

Source: The data for 1944 through 1947 were taken from National Accounts, Income, and Expenditure 1942-49, published by the Dominion Bureau of Statistics and the data for 1948 through 1951 were taken from the white paper attached to the House of Commons Debates, Official Report, Tuesday, Apr. 8, 1952.

