SUMMARY OF THE BUDGET

OF THE

NATIONAL GOVERNMENT OF CANADA

FOR THE

FISCAL YEAR ENDING MARCH 31, 1954

(Presented February 19, 1953)

PREPARED BY

THE STAFF OF THE JOINT COMMITTEE
ON INTERNAL REVENUE TAXATION

UNITED STATES
GOVERNMENT PRINTING OFFICE
31216 WASHINGTON : 1953

CONTENTS

SUMMARY OF THE CANADIAN BUDGET

I. Summary Statement

The Minister of Finance, Mr. Douglas Abbott, presented his annual budget speech to the Canadian House of Commons on February 19, 1953. This was nearly 2 months before the customary date because the House of Commons plans to conclude its work this year 6 or 8 weeks ahead of the usual time. Table 1 presents a summary of the principal changes proposed in the current Canadian budget speech. Table 2 attempts to summarize the major United States and Canadian internal revenue taxes in effect for 1953 and 1954, taking into account the current Canadian budget proposals.

Table 1.—*Summary of principal tax changes proposed in current Canadian budget speech*

I. Individual income tax:	
(a) Revision of rate structure	Ignoring the old-age security tax, rates for 1953 are about 8.5 percent below 1952 rates and for 1954 around 14 percent below 1952 rates. With the exception of the old-age security tax, the rates for 1954 will be the same as those in 1949 and 1950.
(b) Medical expense deduction	Beginning in 1953 medical expenses in excess of 3 percent, instead of 4 percent, are deductible from net income.
(c) Credit for dividends paid by taxable Canadian corporations.	For 1953 and subsequent years 20 percent, instead of 10 percent, of dividends are allowed as credits against tax.
II. Corporate income tax:	
(a) Revision of tax brackets	Effective Jan. 1, 1953, the lower bracket rate applies to the 1st $20,000, instead of only the 1st $10,000 of taxable income.
(b) Revision of rates	Beginning in 1953 the lower tax rate is 18 percent, instead of 20 percent, and the standard rate is 47 percent instead of 50 percent. A 2 percent old-age security tax is applied in addition to all of these rates.
(c) Tax credit allowed corporations in Quebec (only Province with no tax-rental agreement) against national tax.	Credit increased from 5 percent to 7 percent effective Jan. 1, 1953.
III. Sales and other excise taxes:	
(a) Combined excise and duty on cigarettes	On Feb. 20, 1953, the tax per standard pack was reduced from 20 cents to 16 cents.
(b) Tax on checks, money orders, etc	Repealed, effective Feb. 20, 1953.
(c) Tax on transfer of securities	Repealed, effective Feb. 20, 1953.
(d) 10 percent manufacturers' sales tax	Effective Feb. 20, 1953, exemptions are extended to books, materials used in production of books and newspapers, materials used in production of foods exempt from tax, and certain materials consumed or expended in production of other goods.
(e) Radio license fee	$2.50 annual fee repealed effective Apr. 1, 1953.

TABLE 2.—*Comparative summary of major United States and Canadian internal revenue taxes in effect for 1953 and 1954, taking into account current Canadian budget proposals*

	United States		Canada	
	1953	1954	1953	1954
I. INDIVIDUAL INCOME TAX:				
(a) Personal exemptions:				
Single person	$600	No change	$1,000	No change.
Married couple	$1,200	No change	$2,000	No change.
(b) Credit for dependents:				
Eligible for family allowance ($72 per year in Canada; no such allowance in United States.)	$600	No change	$150	No change.
Not eligible for family allowance	$600	No change	$400	No change.
(c) Special additional exemptions for taxpayer or spouse:				
Blind	$600	No change	$500	No change.
Age 65 years or over	$600	No change	$500	No change.
(d) Nonbusiness deductions	10 percent standard deduction (maximum, $1,000 for single person or married couple) or following itemized deductions: contributions (20 percent limit), interest, taxes, casualty losses, medical expenses (in excess of 5 percent of adjusted gross income), alimony and expenses of earning income.	No change	Following itemized deductions: Charitable donation (10 percent limit), medical expenses (in excess of 3 percent of net income), alimony, pension plan contribution and certain expenses of earning income.	No change.
(e) Tax rates (for full schedule of rates in Canada see table 7, p. 17, and for a marginal rate comparison see table 9, p. 22):				
Beginning rate	22.2 percent	20 percent	18 percent [2]	17 percent.[2]
Top rate	92 percent	91 percent	83 percent	80 percent.
Maximum effective rate limitation	88 percent	87 percent	None	None.
Special surtax on investment income over $2,400 or personal exemptions and credits, whichever is greater.	None	None	4 percent	No change.

(g) Fishing rods and reels	10 percent manufacturers	No change	15 percent manufacturers	No change.
(h) Cigarette lighters, fountain pens, mechanical pencils, etc.	15 percent manufacturers	No change	15 percent manufacturers	No change.
(i) Matches, ordinary	2 cents per 1,000	No change	15 percent manufacturers	No change.
(j) Firearms	11 percent manufacturers	No change	15 percent manufacturers	No change.
(k) Refrigerators, phonograph records, and business and store machines.	10 percent manufacturers	No change	None	None.
(l) Electric light bulbs	20 percent manufacturers	No change	None	None.
(m) Gasoline	2 cents per gallon	1½ cents per gallon.[3]	None	None.
(n) Lubricating oil	6 cents per gallon	No change	None	None.
(o) Candy, chewing gum, soft drinks, china, glassware, etc.	None	None	15 percent manufacturers	No change.
(p) Admissions, cabarets, and club dues	20 percent of charge	No change	None	None.
(q) Local telephone, telegraph and transportation of persons	15 percent of charge	No change	None	None.
(r) Toll telephone	25 percent of charge	No change	None	None.
(s) Transportation of property	3 percent of charge	No change	None	None.
(t) Wagering	10 percent of wager plus $50 per year.	No change	None	None.

[1] Married couples in the United States, but not Canada, are allowed to split their combined incomes and heads of households by means of a special rate schedule receive about 50 percent of split-income benefit of married couples.

[2] Includes 2 percent old-age security tax on first $3,000 of taxable income.

[3] Rates shown are not effective until after Mar. 31, 1954.

[4] Includes 2 percent old-age security tax.

[5] Rate shown is effective only for first 6 months of 1953.

II. Economic Background

The Canadian budget for the fiscal year ending March 31, 1953, was based upon an assumed gross national product of $22.5 billion for the calendar year 1952. Preliminary statistics indicate that the actual gross national product in Canada in 1952 was about $23 billion as contrasted to $21.5 billion in 1951. This represents an increase of 7 percent between 1951 and 1952. The gross national product in the United States in 1951 was $329 billion and in 1952 $346 billion, representing an increase of 5.2 percent. Despite the somewhat greater growth in Canada's gross national product, her per capita gross national product in 1952 was still slightly under $1,600 as contrasted to approximately $2,200 in the United States. In neither Canada nor United States were prices an important factor in this growth in gross national product. In both Canada and the United States the consumers' price indexes increased from 1951 to 1952, but only by 2.5 and 2.3 percent, respectively. Moreover, in both countries the wholesale price index actually declined from 1951 to 1952, in Canada by 5.8 percent and in the United States by 2.8 percent.

In his current message, Mr. Abbott bases his budget expectations on a Canadian gross national product in the neighborhood of $24 billion for the calendar year 1953, an increase of slightly over 4 percent. In the preparation of the United States budget for the fiscal year 1954 the Secretary of the Treasury assumed a personal income level of $275 billion for the calendar year 1953, 2.6 percent above the level of $268 billion in 1952.

The economic conditions in the United States and Canada have been quite similar since the outbreak of hostilities in Korea. Moreover, the overall impact of the Governments' programs as evidenced by a cash surplus or deficit in transactions with the public, also have been quite similar in this period. The cash budget surpluses or deficits in Canada and the United States, expressed as a percentage of gross national product, have been, or are expected to be, as follows in the fiscal years 1951 through 1954:

	Canada	United States
	Percent	*Percent*
1951	+0.9	+2.4
1952	+1.2	(1)
1953	−.6	−.5
1954	−.7	−1.9

1 Less than 0.05 percent surplus.

The figures shown for 1953 and 1954 are estimates and in the case of Canada are based on data presented in Mr. Abbott's speech, and for United States are based on the budget submitted this last January by the prior administration and on income assumptions used by the Treasury in preparing the receipt estimates. Over the 4-year period, Canada has either experienced or expects to experience a net cash budget surplus of $130 million. In the United States, the actual or anticipated cash budget surpluses and deficits in this period will produce a net cash deficit of $945 million.

Despite the similarity of the overall fiscal policies followed by the two countries in the period since the outbreak of hostilities in Korea, the tax programs of the two countries have differed significantly. In combating inflationary pressures Canada has made greater use of excise and sales taxes than the United States. On the other hand, Canada has not imposed an excess profits tax, as the United States has done, nor employed direct controls on either wages or prices. Canada has also followed a somewhat different policy with respect to individual income taxes. At the time of the outbreak of hostilities in Korea, Canadian income taxes generally were somewhat higher than those in the United States. From that time through the calendar year 1952 the Canadian increase was smaller than in the United States. The decrease in her rates starts in 1953 instead of 1954, and by 1954 the Canadian rates (except for the old-age security tax) will be back to the level before the outbreak of hostilities in Korea, while United States rates will still be some 11 to 20 percent above that level.

Mr. Abbott, in his budget speech, states that because of—

> The stability of prices and the abatement of inflationary pressure * * * (it was) possible to remove during the year (1952) some of the more direct anti-inflationary measures which had been introduced after Korea.

Consumer credit regulations and the special restrictions on bank credit were removed in May 1952. Also, toward the end of 1952 it was announced that the deferred depreciation provisions would not apply to property acquired after December 31, 1952. These are discussed more fully on page 32 of this report.

The improvement in the Canadian balance of payments in 1952 should also be noted. From parity with the United States dollar in the first part of the year the Canadian dollar rose to a premium of about 4 percent in September, and then declined slightly to a premium of about 3 percent at the end of the year. It is estimated that Canada had a surplus of $150 million in her net balance of current international payments for the calendar year 1952, as contrasted to a deficit of $524 million in 1951. The inflow of capital into Canada for direct investment in 1952 amounted to about $500 million. However, there was a larger outflow of other forms of capital from Canada. These were induced in part by the premium on the Canadian dollar and took the form of sales by nonresidents of outstanding Canadian securities and shifts in commercial accounts and balances. Taking all capital movements together, long term and short term, Canada was a net exporter of capital in 1952. The combined result of the current balance of payments surplus and the net outflow of capital was to increase the Canadian exchange reserves by $82 million during the year.

III. Receipts and Expenditures

The actual and estimated budgetary receipts and expenditures of Canada for the fiscal years beginning April 1, 1952, 1953, and 1954 are summarized as follows:

[In millions of dollars]

	Actual		Estimated 1954	
	1952	1953 [1]	Before tax changes	After tax changes
Receipts	3, 981	4, 375	4, 710	4, 473
Expenditures	3, 733	4, 327	4, 450	4, 462
Surplus	248	48	260	11

[1] Based on probable receipts and expenditures as reported in the House of Commons debates for Feb. 19, 1953.

Both receipts and expenditures for the fiscal year 1954 are expected to continue the upward trend of the past few years. Without the tax reduction provided in the current budget, receipts in 1954 would have been $335 million above those anticipated for 1953, and even with the tax reduction receipts in 1954 are expected to be almost $100 million above the probable receipts in 1953. Personal income taxes account for most of the increase in 1954 over 1953 revenues. Despite a substantial reduction in the individual income taxes provided by the current budget, it is expected that receipts from this source in 1954 will be $63 million (excluding the old-age security tax) above the collections in 1953.

Budgetary expenditures in 1954 are expected to be $135 million above probable expenditures in 1953. An expected increase of $115 million in the military services category and an increase of $74 million in that for international security and foreign relations more than account for the expected increase in expenditures, although important increases are also shown in the categories of transportation and communication, and social security, welfare, and health. The more important expenditure decreases are shown in the categories of general government, finance, commerce and industry, and agriculture.

The surplus for 1954 of $260 million before the tax changes are taken into account is $212 million above the probable surplus for 1953, but only $12 million above the actual surplus in 1952. The tax and expenditure changes have the effect of reducing this surplus of $260 million to about $11 million which, in effect, represents an attempt to budget for a balance. This is the same policy which was followed last year.

In Canada, loans and investments on which recovery eventually is anticipated do not appear as expenditures at the time the loans are made or receipts at the time the loans or investments are repaid. Instead, they affect the budget only when the loan is not recovered, or there is a loss in an investment. The United States budget therefore is not directly comparable since here loans and investments in most cases are considered 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. In 1952 these loans and investments would have had the effect of decreasing the Canadian surplus by $164 million had they been treated as budgetary items, and the probable 1953 net expenditures of this type will amount to $157 million. Sufficient detail is not available to determine the estimated balance of these loans and investments for the fiscal year 1954.

(A) CASH BUDGET

The cash budget differs from the ordinary or administrative budget in that it shows the balance between receipts from, and payments to, the public with respect to all National Government transactions. It is not limited to specific accounts which have come to be accepted as the "budget" and therefore reflects more accurately the effect of governmental transactions on the economy. Table 3 compares the cash budget of Canada and the United States for the fiscal years 1952 through 1954.

TABLE 3.—*Comparison of the administrative and nonbudgetary receipts and expenditures of the Government of Canada and the cash receipts and disbursements of the Federal Government of the United States for the fiscal years 1952, 1953, and 1954*

[In millions of dollars]

	Actual, 1952	Estimated, 1953	Estimated, 1954 [1]
	Canada		
Administrative budget:			
Receipts	3, 981	4, 375	4, 473
Expenditures	3, 733	4, 327	4, 462
Surplus	248	48	11
Nonbudgetary transactions:			
Receipts	557	449	[2]
Disbursements	552	627	[3]
Surplus (+) or deficit (−)	+5	−178	−175
Overall cash surplus (+) or deficit (−)	+253	−130	−164
Cash surplus (+) or deficit (−) as a percent of gross national product	*Percent* +1. 2	*Percent* −0. 6	*Percent* −0. 7
	United States [3]		
Cash receipts	68, 022	74, 891	75, 150
Cash disbursements	67, 968	76, 836	81, 797
Surplus (+) or deficit (−)	+54	−1, 945	−6, 647
Cash surplus (+) or deficit (−) as a percent of gross national product	*Percent* [4]	*Percent* −0. 5	*Percent* −1. 9

[1] The current budget proposals are taken into account.
[2] Not available.
[3] The estimates for 1953 and 1954 as contained in budget document presented in January 1953.
[4] Less than 0.05 percent.

(B) EXPENDITURES

Table 4 compares the budgetary expenditures of the National Governments of Canada and the United States by major functions for the fiscal years 1952, 1953, and 1954. This table, in the case of Canada, was prepared by the staff of the Joint Committee on Internal Revenue Taxation from data presented on the budget speech, in the White Papers attached to the budget speech, and from *Canada, Estimates for the Fiscal Year Ending March 31, 1954.*[1] 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 1954 was released sometime prior to the presentation of the budget speech and the estimate of total expenditures is revised in this speech. This made it necessary to add a balancing item for 1954 expenditures which could not be distributed by function. This balancing item, according to Mr. Abbott's statement, will probably be required by further losses in Government holdings of beef and pork sold after March 31, 1953, and for losses in other loans or investments. To some extent it is anticipated that these losses will be offset by the lapsing of some authorized expenditures which will not actually be made in the fiscal year 1954. Also, in the case of United States expenditure it should be recognized that expenditures for the fiscal year 1954 may well be substantially below the estimates presented in the budget this last January.

Table 4–A shows for 1952 and 1953 the same distribution of Canadian expenditures by major functions but includes the loans and investments mentioned above.

[1] Queen's Printer and Comptroller of Stationery, Ottawa, 1953.

TABLE 4.—*Comparison of budgetary expenditures of the National Governments of Canada and the United States, by major functions for the fiscal years*[1] *1952 through 1954*

[Amounts in millions of dollars]

Functions	Canada						United States					
	Actual, 1952		Estimated				Actual, 1952		Estimated[3]			
			1953		1954[2]				1953		1954	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Military services	1, 253	33. 6	1, 558	36. 0	1, 673	37. 5	39, 727	60. 1	44, 380	59. 5	46, 296	58. 9
International security and foreign relations	164	4. 4	291	6. 7	365	8. 2	5 268	8. 0	6, 035	8. 1	7, 861	10. 0
Finance, commerce, and industry	61	1. 6	128	3. 0	71	1. 6	241	. 4	458	. 6	275	. 3
Transportation and communication	249	6. 7	265	6. 1	295	6. 6	1, 923	2. 9	2, 056	2. 8	2, 016	2. 6
Natural resources	69	1. 8	77	1. 8	74	1. 7	2 948	4. 5	3, 370	4. 5	4, 097	5. 2
Agriculture	67	1. 8	117	2. 7	73	1. 6	1, 045	1. 6	1, 943	2. 6	1, 827	2. 3
Labor	64	1. 7	68	1. 6	68	1. 5	243	. 4	252	. 3	268	. 3
Housing and community development	4	. 1	4	. 1	7	. 2	735	1. 1	757	1. 0	509	. 6
Education and general research	18	. 5	13	. 3	13	. 3	171	. 3	272	. 4	288	. 4
Social security, welfare, and health	508	13. 6	424	9. 8	445	10. 0	2 491	3. 8	2, 594	3. 5	2, 579	3. 3
Veterans' services and benefits	252	6. 8	278	6. 4	274	6. 1	4 863	7. 4	4, 546	6. 1	4, 564	5. 8
General government	365	9. 8	306	7. 1	248	5. 6	1, 411	2. 1	1, 385	1. 9	1, 547	2. 0
Interest	531	14. 2	460	10. 6	467	10. 5	5, 934	9. 0	6, 520	8. 7	6, 420	8. 2
Grants, taxes, and subsidies to Provinces[4]	127	3. 4	338	7. 8	331	7. 4						
Reserve for contingencies and adjustment to daily Treasury statement							−855	−1. 3	25	(5)	40	(5)
Additional anticipated expenditures not included in estimates					57	1. 3						
Total	3, 733	100. 0	4, 327	100. 0	4, 462	100. 0	66, 145	100. 0	74, 593	100. 0	78, 587	100. 0

[1] Canada's fiscal year ends Mar. 31 and United States June 30.
[2] After effects of budget changes.
[3] Estimates as contained in the budget document presented in January 1953.
[4] In the United States grants-in-aid, shared revenues, and loans and investments made to State and local governments are earmarked for specific purposes and therefore appear under various functional headings. In 1952 these amounted to $2.6 billion, and in 1953 and 1954 they are estimated to amount to $2.9 billion and $3.0 billion, respectively.
[5] Less than 0.05 percent.

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

TABLE 4A.—*Expenditures of the Government of Canada by major functions, including the effects of the annual changes in actual loans and investments*

[Amounts in millions of dollars]

Function	Actual, 1952		Estimated, 1953	
	Amount	Percent	Amount	Percent
Military services	1, 253	32. 2	1, 562	34. 8
International security and foreign relations	104	2. 7	232	5. 2
Finance, commerce, and industry	69	1. 8	130	2. 9
Transportation and communication	390	10. 0	392	8. 7
Natural resources	68	1. 7	87	1. 9
Agriculture	68	1. 7	119	2. 7
Labor	64	1. 6	68	1. 5
Housing and community development	78	2. 0	80	1. 8
Education and general research	18	. 5	13	. 3
Social security, welfare, and health	508	13. 0	424	9. 5
Veterans' services and benefits	253	6. 5	277	6. 2
General government	369	9. 5	307	6. 8
Interest	531	13. 6	460	10. 3
Grants, taxes, and subsidies to Provinces	123	3. 2	334	7. 5
Total	3, 897	100. 0	4, 483	100. 0

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

In both Canada and United States, military expenditures are the predominant item. In Canada in 1954 they account for 37.5 percent of total budgetary expenditures and in the United States, 58.9 percent.

A comparison of the relative size of Government expenditures in Canada and United States can be shown by expressing the expenditures as a percentage of the gross national product in each country. Total National, Provincial, and municipal expenditures in Canada in the calendar year 1952 represented 28.1 percent of gross national product as compared to 27.3 percent in the United States. Although overall Canadian expenditures were relatively higher than those in the United States, national expenditures in Canada were only 18.8 percent of the Canadian gross national product in 1952 as contrasted to 20.6 percent in the United States. In both cases subsidies to Provincial or State and local governments are included as expenditures of the National Government.

A comparison of the net purchases of goods and services expressed as a percentage of gross national product represents another basis for analyzing government expenditures in the two countries. This omits those expenditures constituting transfers of money from one group of persons to another and compares only those expenditures taking output from the private economy. On this basis expenditures by all levels of government in the United States represented 22.5 percent of the gross national product in 1952 as contrasted to only 18.3 percent in Canada. National Government expenditures in Canada on this basis represented 10.9 percent of Canada's gross national product as contrasted to 15.7 percent in the case of the National Government in the United States. Thus, transfer and other payments apart from those for goods and services in Canada represented 9.8 percent of the gross national product in 1952 as contrasted to 4.8 percent in the United States.

(C) RECEIPTS

Table 5 shows the distribution of revenue by major sources for the National Governments of Canada and the United States for the fiscal years 1952 through 1954. This table indicates that Canada places much greater reliance on sales and excise taxes and much less reliance on the individual income tax than does the United States. The contrast is less marked in the case of the corporate income tax, although here also Canada depends somewhat less upon this source of revenue than does the United States.

31216—53——3

TABLE 5.—*Comparison of the major revenue sources of the National Governments of Canada and the United States for the fiscal years 1952, 1953, and 1954*

[Money amounts in millions of dollars]

	Canada						United States					
	Actual, 1952		1953 [1]		1954 [2]		Actual, 1952		1953 [3]		1954 [3]	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Individual income tax	$1,031	25.7	$1,287	28.0	$1,387	29.2	$29,880	43.9	$33,551	44.6	$33,394	44.2
Corporation income tax [4]	1,133	28.3	1,268	27.6	1,278	26.9	21,467	31.6	23,700	31.5	23,300	30.8
Sales and excise taxes	1,128	28.2	1,251	27.2	1,276	26.9	8,893	13.1	9,795	13.0	9,869	13.1
Customs	346	8.6	379	8.2	395	8.3	551	.8	590	.8	590	.8
All other receipts	369	9.2	414	9.0	415	8.7	7,210	10.6	7,572	10.1	8,369	11.1
Total	4,007	100.0	4,599	100.0	4,751	100.0	67,999	100.0	75,208	100.0	75,522	100.0
Deduct:												
Old-age security taxes or appropriation to OASI trust fund	26		224		278		3,569		4,000		4,298	
Refunds of receipts							2,302		2,511		2,559	
Net budget receipts	3,981		4,375		4,473		62,129		68,697		68,665	

[1] Probable receipts.
[2] Estimated, after proposed tax changes.
[3] Estimates as contained in the budget document presented in January 1953.
[4] In the case of the United States, includes excess-profits-tax collections.

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

IV. Budget Tax Changes

The revenue effects of the tax proposals presented in the budget speech are summarized in table 6.

Table 6.—*Estimated reduction of revenue resulting from tax changes*

[In millions of dollars]

	Fiscal year 1954	Full year effect
Individual income tax:		
(*a*) Revision of rate structure	87	155
(*b*) Provision for reducing lower limit for medical expenses	1	10
(*c*) Increase in dividend credit from 10 percent to 20 percent	12	20
Total individual income tax reduction	100	185
Corporate income tax:		
(*a*) Reduction of lower and standard rate	60	84
(*b*) Increasing size of bracket subject to lower rate from $10,000 to $20,000	25	35
(*c*) Credit increase from 5 percent to 7 percent on profits earned in provinces not covered by a tax-rental agreement	12	17
Total corporate income tax reduction	97	136
Excise and sales taxes:		
(*a*) Reduction of cigarette tax from 20 cents to 16 cents per standard pack of 20	17	17
(*b*) Repeal of stamp tax on checks, money orders, etc	12	12
(*c*) Repeal of graduated security transfer tax	3	3
(*d*) Removal of certain items subject to the 10 percent sales tax	8	8
Total excise and sales tax reduction	40	40
Total tax reduction	237	361
Nonbudgetary revenue effects:		
(*a*) Repeal of the radio license tax (earmarked for Canadian Broadcasting Co.)	6	6
(*b*) Reduction in base of 2 percent sales tax assigned to the social security (due to sales-tax exemptions and decrease in cigarette tax)	2	2
Total tax reduction to the public	245	369

The above table shows that the tax proposals made are expected to decrease budgetary revenues by $237 million in the year ending March 31, 1954, and by $361 million in a full year of operation. An additional revenue loss of $8 million is expected outside of the ordinary budgetary revenues. Six million dollars of this loss represents the repeal of the radio license tax, revenues which would previously have been turned over to the Canadian Broadcasting Co., and $2 million represents an expected decrease in the old age security revenues as a result of changes in the sales tax base (this fund being assigned 2 percentage points of the 10 percent sales tax).

In a full year of operation \$185 million of the tax reduction, or 51 percent, represents a reduction in individual income taxes, \$136 million, or 38 percent, represents a decrease in the corporate income tax, and \$40 million, or 11 percent, represents a decrease in excise or sales taxes.

Mr. Abbott made the following general comment with regard to the tax reduction:

> The outbreak of aggression in Korea compelled us for a while to reverse the steady march of tax reductions, but within 18 months we were able to resume our course. A year ago taxes were reduced by \$146 million a year. This evening I have proposed further reductions totaling \$361 million a year. This makes the very substantial total of \$507 million of tax reduction in 2 years, and means that we have been able to withdraw two-thirds of the additional tax burden imposed in September 1950, and April 1951, and still carry our proper share of the costs of collective defense.

(A) INDIVIDUAL INCOME TAXES

Canada has increased individual income taxes in two acts since the outbreak of hostilities in Korea, and the enactment of this year's budget will represent the second act in which decreases have been made in individual income taxes since the outbreak of hostilities in Korea. The first and principal increase in individual income taxes was provided in the budget presented in April 1951. This budget provided a 10 percent defense surcharge on the then existing rates for 1951, and a 20 percent defense surcharge for 1952. Later in 1951 the Old Age Security Act, somewhat similar to our old-age and survivors insurance program, was passed. In part this program is financed by an addition to the individual income tax. For this purpose individual income taxes on the first \$3,000 of taxable income were raised by one percentage point for 1952, and by another point for 1953 and subsequent years.

The first decrease in individual income taxes was provided in the budget presented in April 1952. This budget provided a new individual income tax rate schedule into which was incorporated part, but not all, of the 20 percent defense surcharge. The new schedule had the effect of reducing individual income taxes by about 6 percent for 1953 and subsequent years, although by only about 3 percent in 1952. The decrease in the 1952 rate, however, was a decrease in the scheduled rates for 1952; because 1952 was to be the first year in which the full 20 percent defense surcharge was to be effective, this 3 percent decrease in individual taxes still left the 1952 rates above those provided for 1949.

Mr. Abbott indicates that for 1954 and subsequent years Canada will revert to the 1949 schedule of individual income taxes (with the exception of the 2 percentage points imposed on the first \$3,000 of taxable income for old-age security). One-half of this decrease is made effective for 1953.

Ignoring the 1 or 2 percentage point increase in the lower brackets for old-age security, the effect of the interaction of these tax changes was to provide rates which were 10 percent above the 1949 rates; 1952 rates which were about 16.4 percent above the 1949 rates; 1953 rates which will be about 6.5 percent above 1949 rates; and 1954 rates which will be the same as the rates in 1949.

The Minister of Finance gave the following reason in his budget speech for the decrease in individual income taxes:

With about $250 million available for tax relief it seemed desirable that a substantial portion of this should be applied to easing the strain of the personal income tax. Income-tax rates if too high can do harm in many directions. Tax laws should avoid placing too great a penalty on successful effort. Every reasonable incentive should be given to people to work hard, move to better paid jobs, take risks, and expand their businesses without keeping one eye continually on the tax gatherer. This is particularly important in a growing and expanding country such as ours where there is so much to be accomplished.

Table 7 shows the 1953 and 1954 individual income tax rates proposed in the budget speech, together with the actual rates in effect in 1949, 1951, and 1952. These rates include the social security tax applicable to the first $3,000 of taxable income which was imposed at a 1 percent rate in 1952 and at a 2 percent rate in 1953 and 1954. The rates shown in table 7 do not take into account the additional flat 4 percent tax already provided by existing law for investment income in excess of $2,400, or in excess of the taxpayer's allowance for marital status, dependents, etc., if greater.

TABLE 7.—*Comparison of the Canadian individual income tax rates,*[1] *actual and proposed for calendar years 1949 and 1951 through 1954*

Taxable income	Actual			Proposed	
	1949	1951	1952 [2]	1953 [2]	1954 [2]
	Percent	*Percent*	*Percent*	*Percent*	*Percent*
0 to $1,000	15	16.5	18.5	18.0	17
$1,000 to $2,000	17	18.7	20.7	20.0	19
$2,000 to $3,000	19	20.9	23.4	22.5	21
$3,000 to $4,000	19	20.9	22.4	20.5	19
$4,000 to $6,000	22	24.2	25.7	23.5	22
$6,000 to $8,000	26	28.6	30.6	28.0	26
$8,000 to $10,000	30	33.0	35.5	32.5	30
$10,000 to $12,000	35	38.5	41.0	37.5	35
$12,000 to $15,000	40	44.0	46.5	42.5	40
$15,000 to $25,000	45	49.5	52.0	47.5	45
$25,000 to $35,000	50	55.0	57.5	52.5	50
$35,000 to $40,000	50	55.0	60.0	55.0	50
$40,000 to $50,000	55	60.5	63.0	57.5	55
$50,000 to $60,000	55	60.5	65.5	60.0	55
$60,000 to $75,000	60	66.0	68.5	62.5	60
$75,000 to $90,000	60	66.0	71.0	65.0	60
$90,000 to $100,000	65	71.5	74.0	67.5	65
$100,000 to $125,000	65	71.5	76.5	70.0	65
$125,000 to $150,000	70	77.0	79.5	72.5	70
$150,000 to $225,000	70	77.0	82.0	75.0	70
$225,000 to $250,000	75	82.5	85.0	77.5	75
$250,000 to $400,000	75	82.5	88.0	80.5	75
$400,000 and over	80	88.0	91.0	83.0	80

[1] Rates shown are those imposed on earned income.
[2] Includes old-age security tax of 1 percent on first $3,000 of income in 1952, and 2 percent on first $3,000 of income in 1953 and 1954.

A comparison of the 1954 rates shown in table 7 with those imposed in 1949 will indicate that with the exception of the 2 percentage point old-age security tax in the first 3 brackets, the rates provided in the 2 years are the same. Thus, the starting individual income tax rate of 15 percent in 1949 will be 17 percent in 1954, while the top bracket rate in both years will be 80 percent. The starting rate for 1953 will be 18 percent and the top rate, 83 percent. These rates are half-way between the rates which would have been effective for 1953 in the absence of the budget proposals and the rates provided by budget proposals for future years. The highest individual income tax rates actually in effect in Canada since the outbreak of hostilities in Korea were those provided for 1952. The starting rate in 1952 was 3.5 percentage points above the 1949 rate and 1.5 percentage points above the 1954 rate, while in the top bracket the 1952 rate was 11 percentage points above both the 1949 and 1954 rates.

Under the Canadian withholding system individuals whose income is principally from salaries and wages, on the average, have about 95 to 98 percent of their tax deducted by the employer at the time the wage or salary payment is made. The amount to be withheld is indicated on tables provided by the Government and no system of percentage withholding is used. The current budget message indicates that the tax deducted on these tables will be reduced for the average taxpayer by about 11 percent, beginning July 1, 1953.

It is also proposed that Canada take another step toward the elimination of double taxation. In 1949 Canada permitted individual taxpayers for the first time to take a credit against the individual income tax equal to 10 percent of dividends received from stock of Canadian taxpaying corporations. The current budget provides that for dividends received in the calendar year 1953 and subsequent years this tax credit is to be increased from 10 percent to 20 percent.

The extent of the "double taxation" still remaining in the Canadian tax system can be illustrated by taking as an example a corporation with a substantial amount of income subject to the upper rate. This is done in table 8. This table takes as an example a corporation with an income before taxes of $380,784. The full $200,000 remaining after payment of the corporate tax is assumed to be distributed to eight stockholders who receive from $2,000 to $100,000 of such income. In computing their individual income taxes (shown before and after the dividend credit) it is assumed that they are married but have no children and that their dividends represent the only income they receive. The total individual income tax paid by the eight stockholders is $47,352 which with the $180,784 paid by the corporation represents a total tax of $228,136 on the $380,784 of income. The last column shows the tax which each of these individuals would have paid if the $380,784 had been interest income and therefore not subject to any "double tax." This total indicates that in this case the total tax paid on the dividend income is 115 percent of that paid on the interest income.

TABLE 8.—*Example of the "double tax" remaining in the Canadian tax system with the 20-percent dividends-received credit provided in the current budget*

Income received—all dividends	Individual income tax before dividend credit (married, no children) [1]	Tax credit [2]	Individual income tax after dividend credit	Tax paid on dividend income by corporation	Total tax paid by corporation and individual	Tax paid if individuals receive the same total income from interest	Percent total tax paid on dividend income is of that paid on interest income
$2,000	0	$400	0	$1,808	$1,808	$292	619
3,000	$131	600	0	2,712	2,712	707	384
5,000	549	1,000	0	4,520	4,520	1,595	283
8,000	1,216	1,600	0	7,231	7,231	3,585	202
12,000	2,364	2,400	0	10,847	10,847	7,179	151
20,000	5,784	4,000	$1,784	18,078	19,862	15,146	131
50,000	21,934	10,000	11,934	45,196	57,130	50,319	114
100,000	53,634	20,000	33,634	90,392	124,026	119,124	104
200,000	85,612	40,000	47,352	180,784	228,136	197,947	115

[1] Assumes 10 percent deduction for charitable, medical expenses, etc., for classes under $12,000. For income classes $12,000 and over deductions of $1,000 are assumed. This was computed on the basis of 1954 rates.
[2] 20 percent of net dividends received, not to exceed tax increase due to dividend income.

The "double taxation" in Canada, however, is eliminated in the case of dividends received from the smaller Canadian corporations subject only to the 20 percent rate. This can be illustrated by the following example: Assume an individual subject to a marginal rate of 40 percent on investment income received a dividend from a Canadian corporation taxable at 20 percent. Under these conditions if $100 before payment of the corporate tax is set aside for distribution to a stockholder, the tax payable by the corporation with respect to such income is $20. On the remaining $80 which is distributed to the stockholder, the individual income tax before allowance for the tax credit is $32. The tax credit of $16 (20 percent of $80) reduces the individual tax to $16. Thus, including the $20 paid by the corporation, the total tax paid on the $100 income is $36. The individual would have paid $40 in tax had he received the income directly rather than through a corporation.

Mr. Abbott gives the following reasons for increasing the size of this tax credit:

> In 1949 provision was made in the Income Tax Act for a credit against personal income tax of 10 percent of the dividends received from Canadian taxpaying corporations. At that time I said this was a first step in dealing with a situation under our present tax structure where, after taxing corporate profits at a very high rate, the individual is required to pay at graduated rates on the dividends paid out of corporate profits. * * * Canada is fortunate these days in being able to attract enterprising foreign capital. This is desirable and we welcome it. At the same time it would seem to be a good thing if Canadians were encouraged, where they can safely do so, to join in a wider participation of equity ownership in the expanding industrial wealth of our country. This dividend credit of 20 percent should, I think, be of considerable assistance in encouraging our people to increase their stake in Canada's future.

Canada, like the United States, allows a deduction for unusual medical expenses. Previously under Canadian law unusual medical expenses have been considered to be only those expenses in excess of 4 percent of net income before this deduction. In the United States a deduction is allowed for medical expenses in excess of 5 percent of adjusted gross income.[2] Under the budget proposals a medical expense deduction will be allowed in Canada for 1953 and subsequent years for those expenses in excess of 3 percent of net income before this deduction. The following explanation is given for this proposal:

> * * * At present the law recognizes *unusual* medical expenses, that is, expenses in excess of 4 percent of the taxpayer's income. The Government has been urged to consider removing this 4-percent floor and, in effect, to allow a deduction for *usual* as well as for *unusual* medical expenses. As the House knows, I have given very careful consideration to this widely supported proposal. * * * I promised to look further into the question of the level of the floor and to consider whether some lowering of it might be justified. My colleague, the Minister of National Health and Welfare, has also considered this matter and has carefully reviewed the latest statistical data in this field. From this review he concludes that while the broad field of medical expenses as commonly understood may on the average be at least 4 percent of income, it would appear that the range of medical expense which would qualify for inclusion in the deduction under the Income Tax Act would not on the average exceed 3 percent of income.

In addition to the "floor" on the medical expense deduction, both Canada and the United States provide "ceilings" for such expenses. In the United States the maximum medical expense deduction is $1,250 per person claimed as an exemption on the tax return, with a maximum of $5,000 for a joint return, and $2,500 for other returns. In Canada the maximum medical expense deduction for a single person is $1,500; for a married couple, $2,000; and for dependents, $500. However, not more than $2,000 may be deducted for a husband and wife filing separately. Canada made no change in this upper limitation this year.

Two changes also were proposed in the dependency deduction or exemption. Under Canadian law a taxpayer with dependent children (or grandchildren) is allowed a deduction of $150 per child if they are eligible to receive family allowances (in general, children under 16 years of age) and $400 per child between the ages of 16 and 21. He may deduct $400 for children over age 21 only if they are wholly dependent by reason of mental or physical infirmity. A deduction is also allowed for amounts actually spent up to $400 for the support of infirm parents or grandparents, or for brothers or sisters under age 21 or infirm. The same deductions are allowed in the case of persons who by marriage bear one of the relationships to the taxpayer specified above. In order to qualify as a dependent, a child must have earnings of less than $600.

The changes proposed in the above dependency requirements would permit a dependency exemption for children over age 21 who are attending a university or school and would raise the $600 maximum earnings limitation to $750.

Under United States law the earnings test for a dependent is $600 per year. Since under United States law there is no age limitation with respect to dependents, it is already possible to claim dependency exemptions for children attending universities if their earnings are under $600 and more than half of their support is furnished by the taxpayer. The relationship tests under the United States law include the categories permitted under Canadian law and several others as well.

[2] In the United States the 5 percent "floor" does not apply to medical expenses of taxpayers or their spouses age 65 or over.

The other personal income tax changes proposed in the budget speech were of more limited application. Expense allowances for elected municipal officials are to be deductible for income-tax purposes to the extent that they do not exceed one-half of the amount payable in salary or other remuneration. The deduction of an allowance of this type is already permitted in the case of members elected to the Federal or a Provincial legislature. The budget message also indicates that "special provision will be made to alleviate the tax on refunds paid out as a result of reorganizations of pension plans." The remaining changes proposed are more closely associated with the corporate income tax and are discussed on pages 31 and 32.

The changes in the personal income tax, primarily the rate changes, are expected to reduce revenues by $100 million in the fiscal year ending March 31, 1954, and by $185 million in a full year of operation. Thus, the forecast of revenues from individual income taxes for the fiscal year 1954 (excluding old-age security taxes) is reduced from $1,405 to $1,305 million. As shown in table 6, the revision of the personal income-tax rate structure is expected to account for $87 million of the loss in the fiscal year 1954, and $155 million of the loss in a full year of operation. Of the remaining loss, $1 million in the fiscal year 1954, and $10 million in a full year of operation, is associated with the reduction in the lower limit for the medical expense deduction; and $12 million in the fiscal year 1954, and $20 million in a full year of operation, represents the effect of increasing the dividend credit from 10 percent to 20 percent.

Table 9 compares the Canadian and United States marginal rates of individual income tax for the years 1949, 1952, 1953, and 1954. Because of our income-splitting provision, it is necessary for the United States to show separate marginal rates for single persons and married couples filing a joint return. The Canadian rates include the old-age security tax imposed at a rate of 1 percent in 1952, and 2 percent in 1953 and 1954 on the first $3,000 of taxable income. The rates shown for the United States do not include the tax for the old-age and survivors insurance program, presently 1.5 percent, imposed on employees in covered employment with respect to their first $3,600 of wages. The Canadian tax is included, although the United States tax excluded, because the former uses the same tax base as the ordinary income tax and because it applies to all taxable incomes. In the United States the tax is imposed on gross salaries or wages and applies only to those in certain types of employment, thus more closely resembling a form of insurance than the Canadian plan.

TABLE 9.—*Comparison of selected marginal rates of individual income taxes in Canada and the United States for the years 1949, 1952, 1953, and 1954*

Income after deductions and exemptions	1949			1952			1953			1954		
	Canada [1]	United States		Canada [1]	United States [2]		Canada [1]	United States [2]		Canada [1]	United States [2]	
		Single person	Married couple		Single person	Married couple		Single person	Married couple		Single person	Married couple
0 to $1,000	15	16.6	16.6	18.5	22.2	22.2	18	22.2	22.2	17	20	20
$1,000 to $2,000	17	16.6	16.6	20.7	22.2	22.2	20	22.2	22.2	19	20	20
$2,000 to $3,000	19	19.36	16.6	23.4	24.6	22.2	22.5	24.6	22.2	21	22	20
$3,000 to $4,000	19	19.36	16.6	22.4	24.6	22.2	20.5	24.6	22.2	19	22	20
$4,000 to $6,000	22	22.88	19.36	25.7	29	24.6	23.5	29	24.6	22	26	22
$6,000 to $8,000	26	26.40	19.36	30.6	34	24.6	28	34	24.6	26	30	22
$8,000 to $10,000	30	29.92	22.88	35.5	38	29	32.5	38	29	30	34	26
$10,000 to $12,000	35	33.44	22.88	41.0	42	29	37.5	42	29	35	38	26
$12,000 to $14,000	40	37.84	26.40	46.5	48	34	42.5	48	34	40	43	30
$14,000 to $15,000	40	41.36	26.40	46.5	53	34	42.5	53	34	40	47	30
$15,000 to $16,000	45	41.36	26.40	52	53	34	47.5	53	34	45	47	30
$16,000 to $18,000	45	44.00	29.92	52	56	38	47.5	56	38	45	50	34
$20,000 to $22,000	45	49.28	33.44	52	62	42	47.5	62	42	45	56	38
$24,000 to $25,000	45	51.92	37.84	52	66	48	47.5	66	48	45	59	43
$28,000 to $32,000	50	54.56	41.36	57.5	67	53	52.5	67	53	50	62	47
$32,000 to $35,000	50	57.20	44.00	57.5	68	56	52.5	68	56	50	65	50
$35,000 to $36,000	50	57.20	44.00	60	68	56	55	68	56	50	65	50
$38,000 to $40,000	50	60.72	46.64	60	72	59	55	72	59	50	69	53
$44,000 to $50,000	55	63.36	51.92	63	75	66	57.5	75	66	55	72	59
$52,000 to $60,000	55	66.00	54.56	65.5	77	67	60	77	67	55	75	62
$64,000 to $70,000	60	68.64	57.20	68.5	80	68	62.5	80	68	60	78	65
$70,000 to $75,000	60	71.28	57.20	68.5	83	68	62.5	83	68	60	81	65
$76,000 to $80,000	60	71.28	60.72	71	83	72	65	83	72	60	81	69
$80,000 to $88,000	60	73.92	60.72	71	85	72	65	85	72	60	84	69
$90,000 to $100,000	65	76.56	63.36	74	88	75	67.5	88	75	65	87	72
$100,000 to $120,000	65	78.32	66.00	76.5	90	77	70	90	77	65	89	75
$120,000 to $125,000	65	78.32	68.64	76.5	90	80	70	90	80	65	89	78
$140,000 to $150,000	70	80.3225	71.28	79.5	90	83	72.5	90	83	70	89	81
$160,000 to $180,000	70	81.225	73.92	82	91	85	75	91	85	70	90	84
$190,000 to $200,000	70	81.225	76.56	82	91	88	75	91	88	70	90	87
$200,000 to $225,000	70	82.1275	78.32	82	92	90	75	92	90	70	91	89
$300,000 to $400,000	75	82.1275	81.225	88	92	91	80.5	92	91	75	91	90
$400,000 and over	80	82.1275	82.1275	91	92	92	83	92	92	80	91	91

[1] Rates shown are those for earned income and include the old-age security tax of 1 percent in 1952 and 2 percent in 1953 and 1954 on first $3,000 of income. An additional tax of 4 percent is imposed on investment income over $2,400 or the value of exemptions, whichever is greater.

[2] For 1952 and subsequent years United States allows "heads of households" (in general, a single taxpayer, with a dependent in his home) approximately one-half the benefits of income splitting accorded married couples filing a joint return. This is provided in a separate rate schedule for "heads of households."

The marginal tax rates for 1949 represent the rates in effect prior to the outbreak of hostilities in Korea, the rates imposed in 1952 (also 1953 in the case of United States) represent the peak rates imposed since the outbreak of hostilities in Korea and the rates for 1954 represent the extent of the reductions so far provided since the Korean war. The beginning marginal rate in Canada was increased from 15 percent in 1949 to a peak rate of 18.5 percent in 1952, and the current budget proposes that this rate be reduced to 18 percent in 1953 and 17 percent in 1954. In the United States the beginning marginal rate in 1949 was 16.6 percent, was raised to 22.2 percent in 1952, and is scheduled to revert to 20 percent in 1954. Thus, the beginning rate in the United States was 1.6 percentage points above that in Canada in 1949, 3.7 percentage points above the Canadian rate in 1952, and is scheduled to be 4.2 and 3 percentage points, respectively, above the proposed Canadian rates for 1953 and 1954. The top marginal rate in Canada of 80 percent in 1949 was raised to 91 percent in 1952, and it is planned to reduce it to 83 percent in 1953 and to return it to the 1949 rate of 80 percent in 1954. Top marginal rates in Canada and the United States have been quite close together up through 1952, the United States rates being slightly more than 2 points above those in Canada in 1949 and 1 point above the Canadian rates in 1952. However, with the rate reduction proposed by Canada for 1953 and 1954, the Canadian top-bracket rates will be 9 and 11 percentage points, respectively, below those in the United States.

An examination of table 9 will indicate that between the top and bottom marginal rates the United States rates imposed on single persons are higher than those imposed by Canada. The only exceptions to this rule appear in the 1949 rates where the rates imposed by United States on taxable incomes between \$1,000 and \$2,000, between \$8,000 and \$14,000, and between \$15,000 and \$18,000 were below those imposed by Canada on such income. Because of the income-splitting provision in United States income tax law, the rates imposed by the United States on married couples on incomes above \$2,000 usually are less than those imposed in Canada until a relatively high income level is reached.[3]

Table 10 compares the effective rates of individual income tax in Canada and the United States for the years 1949, 1952, 1953, and 1954. The rates shown for Canada for 1953 and 1954 are those proposed in the budget speech. This effective rate table differs from the marginal rate table shown above in two respects:

(1) Effective rates show the average rate of tax on all income of some specified level rather than the rate of tax applying to income within a specified bracket; and

(2) The effective tax rates shown are based upon income after deductions, but before exemptions, while the marginal rates shown are based on income after both the deductions and exemptions, with the result that the effective rates take into account the effect of varying exemptions provided while the marginal rates do not.

As in the case of the marginal rates, the effective rates shown include the old-age-security tax imposed in Canada on the first \$3,000 of taxable income at the rate of 1 percent in 1952, and 2 percent in 1953 and 1954.

[3] In 1949 the rates imposed by the United States on married couples were above those imposed by Canada in the income areas of 0 to \$1,000, \$76,000 to \$90,000, \$100,000 to \$125,000, and above \$140,000. In 1952 United States marginal rates on married couples were above those imposed by Canada in the income areas from 0 to \$2,000, \$44,000 to \$60,000, and above \$76,000. In 1954 the scheduled United States marginal rates are the same or above the proposed marginal rates in Canada in the income areas 0 to \$2,000, \$3,000 to \$6,000, and above \$32,000.

Table 10.—*Comparison of Canadian and United States effective rates of individual income taxes (including Canadian old-age security tax)* [1] *for the years 1949, 1952, 1953, and 1954*

Income after deductions, but before exemptions [2]	Canada				United States		
	Actual		Proposal		Actual		
	1949	1952	1953	1954	1949	1952–53	1954
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
SINGLE PERSON—NO DEPENDENTS							
$600	----------	----------	----------	----------	----------	----------	----------
$1,000	----------	----------	----------	----------	6.6	8.9	8.0
$2,000	7.5	9.3	9.0	8.5	11.6	15.5	14.0
$3,000	10.7	13.1	12.7	12.0	13.6	18.1	16.3
$4,000	12.8	15.7	15.1	14.3	15.1	19.7	17.7
$5,000	14.0	17.0	16.2	15.2	16.2	21.0	18.9
$8,000	17.5	20.9	19.5	18.3	19.3	24.9	22.3
$10,000	19.6	23.3	21.7	20.2	21.2	27.3	24.4
$15,000	25.1	29.6	27.3	25.5	26.0	33.1	29.7
$20,000	29.8	34.9	32.1	30.1	30.4	38.8	34.7
$25,000	32.8	38.3	35.2	33.1	34.4	43.8	39.2
$50,000	43.6	50.5	46.3	43.7	46.4	56.9	52.8
$100,000	53.7	62.0	56.9	53.8	58.8	69.7	66.8
$500,000	73.4	84.5	77.6	73.4	[3] 77.0	87.2	85.9
$1,000,000	78.7	89.8	82.3	78.7	[3] 77.0	[3] 88.0	[3] 87.0
MARRIED COUPLE—NO DEPENDENTS							
$2,000	----------	----------	----------	----------	6.6	8.9	8.0
$3,000	5.0	6.2	6.0	5.7	10.0	13.3	12.0
$4,000	8.0	9.8	9.5	9.0	11.6	15.5	14.0
$5,000	10.2	12.5	12.1	11.4	12.6	16.9	15.2
$8,000	14.3	17.1	16.0	15.0	15.1	19.7	17.7
$10,000	16.6	19.8	18.4	17.2	16.2	21.0	18.9
$15,000	22.4	26.5	24.4	22.8	18.9	24.3	21.7
$20,000	27.6	32.3	29.7	27.9	21.2	27.3	24.4
$25,000	31.0	36.2	33.3	31.3	23.5	30.0	26.9
$50,000	42.5	49.2	45.1	42.6	34.4	43.8	39.2
$100,000	53.1	61.3	56.2	53.1	46.4	56.9	52.8
$500,000	73.3	84.3	77.4	73.3	71.9	82.5	80.7
$1,000,000	78.6	89.7	82.2	78.6	[3] 77.0	87.2	85.9
MARRIED COUPLE—2 DEPENDENTS OF FAMILY ALLOWANCE AGE [4]							
$2,000	([5])	([5])	([5])	([5])	----------	----------	----------
$3,000	([5])	([5])	([5])	([5])	3.3	4.4	4.0
$4,000	3.1	4.7	4.4	4.0	6.7	8.9	8.0
$5,000	6.2	8.2	7.9	7.3	8.6	11.5	10.4
$8,000	11.6	14.3	13.3	12.4	12.2	16.0	14.4
$10,000	14.4	17.4	16.1	15.0	13.6	17.7	15.9
$15,000	20.6	24.6	22.6	21.0	16.7	21.6	19.3
$20,000	26.2	30.8	28.3	26.5	19.4	25.0	22.3
$25,000	29.9	35.0	32.1	30.2	21.9	28.0	25.1
$50,000	41.9	48.5	44.5	42.0	33.2	42.2	37.8
$100,000	52.7	60.9	55.9	52.8	45.6	56.0	51.9
$500,000	73.2	84.2	77.3	73.2	71.7	82.2	80.5
$1,000,000	78.6	89.6	82.2	78.6	76.9	87.1	85.7

In 1949 the Canadian effective rate of tax for a single person with a net income of $2,000 was 4.1 percentage points below that imposed in the United States; in 1952 it was 6.2 percentage points below; in 1953, 6.5 percentage points below; and in 1954 it will be 5.5 percentage points below. Although the differences in rates vary considerably in the different years and at different income levels, the United States effective rates on single persons are above those in Canada for all of the years shown for all income levels shown except net incomes of $1 million for 1949 and 1952.

For married couples with no children for all years shown, United States effective rates are above those in Canada in the bottom brackets. Canadian effective rates in the middle and most of the upper brackets are above those imposed in the United States.[4] A comparison of the effective rates of married couples with two dependents in the United States and Canada yields results similar to those shown for a married couple with no dependents.

Tables 11 and 12 show the individual income tax burdens in Canada and in the United States for the years 1949, 1952, 1953, and 1954. The fourth column of the table on burdens in the United States also shows the combined Federal and New York State income-tax burden in 1953. This column is of particular significance in comparing income-tax burdens in United States and Canada, since the Canadian Provinces impose no personal-income tax. These two tables also show the increase in the taxes in 1952, 1953, and 1954 over the 1949 tax, the level of taxation in both countries prior to the outbreak of hostilities in Korea. The tax burdens are shown in these tables for single persons, married couples with no dependents, and married couples with two dependents. For Canada it is assumed that the dependents are children eligible for family allowances. These allowances amount to approximately $72 per year per child, but where they are granted, the dependency allowance under the income tax is reduced from the $400 otherwise allowable, to $150. The Canadian tax burdens shown take into account the special income tax on the first $3,000 of taxable income of 1 percent in 1952 and 2 percent in 1953 and subsequent years, which is set aside for the old-age security program.

[4] In 1949 United States effective rates were above those imposed in Canada up to, and including, an income level of $8,000, and for 1952 through 1954 United States rates are above those in Canada up to an income level of $10,000. For 1953 the United States effective rates for incomes of $100,000 and above are higher than those imposed in Canada, and in 1954 United States effective rates for income of $500,000 and over are the higher.

Canada and United States for the years 1949, 1952, 1953, and, in the case of United States, the rates which will be in effect after March 31, 1954. The last column of this table also shows the combined Federal and New York State tax in the United States for the year 1953. The effective rates differ from the bracket rates previously

TABLE 11.—*Comparison of the individual income tax burdens in Canada for the years 1949, 1952, 1953, and 1954*

Income after deductions but before exemptions [1]	Amount of tax [2]				Increase over 1949 tax of tax in—					
	Actual		Proposed		1952		1953		1954	
	1949	1952	1953	1954	Amount	Percent	Amount	Percent	Amount	Percent
SINGLE PERSON—NO DEPENDENTS										
$600										
$1,000										
$2,000	$150	$185	$180	$170	$35	23.3	$30	20.0	$20	13.3
$3,000	320	392	380	360	72	22.5	60	18.8	40	12.5
$4,000	510	626	605	570	116	22.7	95	18.6	60	11.8
$5,000	700	850	810	760	150	21.4	110	15.7	60	8.6
$8,000	1,400	1,670	1,560	1,460	270	19.3	160	11.4	60	4.3
$10,000	1,960	2,331	2,165	2,020	371	18.9	205	10.5	60	3.1
$15,000	3,760	4,436	4,090	3,820	676	18.0	330	8.8	60	1.6
$20,000	5,960	6,981	6,415	6,020	1,021	17.1	455	7.6	60	1.0
$25,000	8,210	9,581	8,790	8,270	1,371	16.7	580	7.1	60	.7
$50,000	21,814	25,225	23,144	21,874	3,411	15.6	1,330	6.1	60	.3
$100,000	53,714	61,990	56,919	53,774	8,276	15.4	3,205	6.0	60	.1
$500,000	367,064	422,570	387,764	367,124	55,506	15.1	20,700	5.6	60	(3)
$1,000,000	787,064	897,570	822,764	787,124	110,506	14.0	35,700	4.5	60	(3)
MARRIED COUPLE—NO DEPENDENTS										
$2,000										
$3,000	$150	$185	$180	$170	$35	23.3	$30	20.0	$20	13.3
$4,000	320	392	380	360	72	22.5	60	18.8	40	12.5
$5,000	510	626	605	570	116	22.7	95	18.6	60	11.8
$8,000	1,140	1,364	1,280	1,200	224	19.6	140	12.3	60	5.3
$10,000	1,660	1,976	1,840	1,720	316	19.0	180	10.8	60	3.6
$15,000	3,360	3,971	3,665	3,420	611	18.2	305	9.1	60	1.8
$20,000	5,510	6,461	5,940	5,570	951	17.3	430	7.8	60	1.1
$25,000	7,760	9,061	8,315	7,820	1,301	16.8	555	7.2	60	.8
$50,000	21,264	24,595	22,569	21,324	3,331	15.7	1,305	6.1	60	.3
$100,000	53,064	61,250	56,244	53,124	8,186	15.4	3,180	6.0	60	.1
$500,000	366,264	421,660	386,934	366,324	55,396	15.1	20,670	5.6	60	(3)
$1,000,000	786,264	896,660	821,934	786,324	110,396	14.0	35,670	4.5	60	(3)
MARRIED COUPLE—2 DEPENDENTS OF FAMILY ALLOWANCE AGE [4]										
$2,000	−$144	−$144	−$144	−$144						
$3,000	−39	−14	−18	−25	$25	64.1	$21	53.8	$14	35.9
$4,000	125	186	176	159	61	48.8	51	40.8	34	27.2
$5,000	309	412	394	363	103	33.3	85	27.5	54	17.5
$8,000	930	1,143	1,066	990	213	22.9	136	14.6	60	6.5
$10,000	1,438	1,740	1,612	1,498	302	21.0	174	12.1	60	4.2
$15,000	3,096	3,688	3,394	3,156	592	19.1	298	9.6	60	1.9
$20,000	5,231	6,161	5,654	5,291	930	17.8	423	8.1	60	1.1
$25,000	7,481	8,761	8,029	7,541	1,280	17.1	548	7.3	60	.8
$50,000	20,955	24,262	22,253	21,015	3,307	15.8	1,298	6.2	60	.3
$100,000	52,725	60,884	55,898	52,785	8,159	15.5	3,173	6.0	60	.1
$500,000	365,880	421,243	386,541	365,940	55,363	15.1	20,661	5.6	60	(3)
$1,000,000	785,880	896,243	821,541	785,940	110,363	14.0	35,661	4.5	60	(3)

countries, the Canadian rate includes 5 percentage points of Provincial tax, while in United States the States are free to impose their own corporate income tax in addition to the rates shown. In 1951 total State and local corporate profits tax accruals were 2 percent of total corporate profits, but since these are deductible in computing Federal tax this is the equivalent of about 1 percentage point in the Federal rate. Also, the United States for the period from July 1, 1950, to June 30, 1953, imposes an excess-profits tax (maximum combined income and excess-profits tax rate since April 1, 1951, in no case can be in excess of about 70 percent).

TABLE 13.—*Corporate income tax rates in Canada and United States for the calendar years 1949 through 1953, and for years beginning after Mar. 31, 1954*

Taxable income	1949	1950	1951	1952	1953	After Mar. 31, 1954
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
CANADA [1]						
0 to $10,000	10	11 2/3	15.0	22	20	20
$10,000 to $20,000	33	34 2/3	45.6	52		
Over $20,000					49	49
UNITED STATES [2]						
0 to $5,000	21					
$5,000 to $20,000	23	23	28¾	30	30	[3] 25
$20,000 to $25,000	25					
$25,000 to $50,000	53	42	50¾	52	52	[3] 47
Over $50,000	38					

[1] Includes the old-age security tax of 2 percent for 1952 and subsequent years and for the same years includes the 5-percent tax previously imposed by the Provinces (corporations in Quebec, which retains a 7-percent corporate tax, receive a 5-percent credit in 1952, and a 7-percent credit in 1953 and subsequent years in computing their national tax).

[2] Does not take into account the 30-percent excess-profits tax in effect from July 1, 1950, to June 30, 1953 (the combined income and excess-profits tax ceiling rate was 60 percent for years beginning prior to April 1, 1951, and the combined ceiling rate for the remainder of the period varies from 30 percent up to about 70 percent).

[3] The rates shown are effective only for the portion of 1954 after Mar. 31. The rates for the calendar year 1954 are 26¼ percent and 48¼ percent.

In the lower bracket the Canadian rate of tax for the years shown varies from 5 percentage points to nearly 14 percentage points below that imposed in the United States. Until 1953 this lower rate in Canada applied only to the first $10,000 of income, while in the United States the lower rates of tax have been provided on the first $25,000 of income. For 1953 and subsequent years, however, the lower rate in the two countries applies to about the same income, since from that time on the Canadian rate is to apply to the first $20,000 of taxable income.

Table 14 compares the effective rates of corporate income tax in Canada and United States for the years 1949, 1952, 1953, and, in the case of United States, the rates which will be in effect after March 31, 1954. The last column of this table also shows the combined Federal and New York State tax in the United States for the year 1953. The effective rates differ from the bracket rates previously shown in that they represent the average rate of tax applying to all taxable income, rather than merely the income in one particular bracket, as is true of the bracket rates.

TABLE 14.—*Comparison of effective corporate income tax rates in Canada and the United States (including New York State taxes for 1953) for selected income levels for the years 1949, 1952, and 1953 and for years beginning after March 31, 1954*

Taxable income	Canada			United States—Federal only [2]			United States—Federal and New York State, 1953 [4]
	1949	1952 [1]	1953 and subsequent years [1]	1949	1952–53	After Mar. 31, 1954 [3]	
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
$5,000	10. 0	22. 0	20. 0	21. 0	30. 0	25. 0	33. 9
$10,000	10. 0	22. 0	20. 0	22. 0	30. 0	25. 0	33. 9
$15,000	17. 7	32. 0	20. 0	22. 3	30. 0	25. 0	33. 9
$20,000	21. 5	37. 0	20. 0	22. 5	30. 0	25. 0	33. 9
$25,000	23. 8	40. 0	25. 8	23. 0	30. 0	25. 0	33. 9
$50,000	28. 4	46. 0	37. 4	38. 0	41. 0	36. 0	43. 6
$100,000	30. 7	49. 0	43. 2	38. 0	46. 5	41. 5	49. 1
$500,000	32. 5	51. 4	47. 8	38. 0	50. 9	45. 9	53. 5
$1,000,000	32. 8	51. 7	48. 4	38. 0	51. 5	46. 5	54. 1
$5,000,000	33. 0	51. 9	48. 9	38. 0	51. 9	46. 9	54. 5

[1] Includes 2 percent old-age security tax and 5 percentage point tax for which the Provinces receive tax rental payments (corporations in Quebec, which have a 7 percent corporate tax are given a 7 percent tax credit in computing national tax for 1953 and 1954).

[2] Does not take into account the 30 percent excess profits tax in effect from July 1, 1950, to June 30, 1953. (The combined income and excess profit tax ceiling rate was 60 percent for years beginning prior to April 1, 1951, and the combined ceiling rate for the remainder of the period varies from 30 percent up to about 70 percent.)

[3] The rates shown are effective only for the portion of 1954 after March 31. The rates for the calendar year 1954 are 26¼ percent and 48¼ percent.

[4] The net income shown is that for State purposes; the Federal income tax is computed on the income shown less State-tax liability.

The effective rates show that the tax on small incomes has been considerably lower in Canada than in the United States. However, in 1949 Canadian taxes were above those in the United States in the income area between $22,500 and $26,000 and in 1952 were above those in the United States for incomes above about $14,000. This can be attributed to the fact that the lower rate in Canada previously applied only to the first $10,000 of income, while the United States has employed a lower rate or rates on income up to $25,000. In 1949 the Canadian bracket rates were above the American rates only between $10,000 and $25,000. In 1952 the Canadian bracket rates were above the American in the income area between $10,000 and $25,000 and identical with the United States rates above $25,000. Since the current budget message indicates the intention of widening the area of application of the lower Canadian rate, this difference is largely removed with respect to 1953 and subsequent years.

In addition to the principal corporate income-tax changes discussed above, the budget provides quite a few minor changes relating to income taxes of business. One of these related to the tax credit allowed Quebec corporations in the computation of their income tax payable to the National Government. Last year the Provinces having tax rental agreements with the National Government were asked to drop their 5-percent corporate income tax and as a result of the tax deductions (which had formerly been made from their tax rental payments equal to the collections from this 5 percent tax) were no longer made. All of the Provinces except Quebec have entered into one of these agreements, with the result that Quebec is the only Province still imposing a corporate income tax. Prior to this year corporations in Quebec were allowed a tax credit of 5 percent in computing the tax due the National Government. Mr. Abbott indicates that, effective January 1, 1953, this 5-percent tax credit will be increased to 7 percent. The 7-percent credit is the same maximum credit as would be received by the Provinces now covered by tax-rental agreements if they were to permit their agreements to expire.

Four of the budget proposals relate exclusively to the extractive industries. Two of these proposals represent 1-year extensions of existing temporary legislation. Prior to World War II the deduction of exploration expenses for the mineral and petroleum industries was limited to expenses incurred for the extension of a known body of ore or oil structure. It was not allowed when the exploration was "off property." During the war the deduction was extended to "off property" exploration expenses and prior to the current budget had been extended to apply to "off property" expenditures made through 1955. The current budget extends the application of this provision through 1956. Also, at the present time, new mines coming into production through the year 1955 are exempt from income tax during the first 3 years of operation. This provision also is extended to include new mines coming into production in 1956.

Mr. Abbott also proposed in his budget speech that mining, petroleum, and gas industries be combined for the purposes of the allowance of exploration expenses. Thus, for the first time it will be possible for a mining company to take a deduction with respect to oil or gas exploration expenses or for a petroleum company to take a deduction for exploration for minerals. The allowance of this deduction is retroactive to the beginning of 1953 and extends forward through 1956. In addition, the extractive industries are to be permitted deductions for bonus payments made for leases which have turned out to be nonproductive.

One of the remaining business income-tax proposals would allow deductions for reserves representing income collected in advance of the time it is earned, or prior to the realization of certain expenses which are attributable to such income. The particular type of case mentioned involved the sale of tickets for goods or services to be delivered or performed in the future. The deduction of such reserves is not presently allowed under the United States income-tax law.

Another change relates to the redemption or acquisition by a company of its outstanding preferred stock where a premium is paid. Under prior law, such premiums represented ordinary taxable income to the shareholder. Prospectively, it is proposed to treat such premiums as nontaxable income to the shareholder. However, the corporation is to be denied a deduction for these premium payments in computing its own undistributed income, or alternatively, to be permitted the deduction but required to pay a tax of 20 percent on the amount of such premiums. For the prior periods, back to January 1, 1949, the premiums are to be nontaxable to the shareholder except where the redemption of the preferred stock took place after income. In such cases if premiums are not taxable to the shareholders, they will not be allowed as a deduction in computing the undistributed income of the corporation.

Finally, it is stated that the taxation of interest on bonds sold between dates on which interest is payable has caused difficulties. In this respect Mr. Abbott states "Amendments will be made which I think will take care of this problem satisfactorily."

The budget presented in 1951 deferred the right to deduct depreciation on newly acquired assets for a period of 4 years except in certain cases described below. Toward the end of last year it was provided that these deferred depreciation provisions would not apply to property acquired after December 31, 1952. Previously current depreciation has been allowed on new assets only where the assets were 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 was authorized by the Minister of Trade and Commerce. He could authorize immediate depreciation 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 did not fall into any of these categories were depreciated over the normal period, but the deductions did not begin until 4 years after acquisition.

It is estimated that the changes proposed in the corporate rate structure will reduce collections by $97 million in the fiscal year ending March 31, 1954, and by $136 million in a full year of operation. It is anticipated, therefore, that budgetary collections from the corporate income tax for the fiscal year 1954 will be reduced from $1,325 million to $1,228 million (excluding old-age security tax). The rate reduction is expected to account for $60 million of the loss in the fiscal year 1954, and $84 million of the loss in a full year of operation; the application of the lower corporate rate to the first $20,000 instead of the first $10,000 of taxable income is expected to reduce revenues in the fiscal year 1954 by $25 million, and by $35 million in a full year of operation; and the increase from 5 to 7 percent in the credit allowed corporations in Quebec accounts for the remaining anticipated loss of $12 million in the fiscal year 1954, and of $17 million in a full year of operation.

(C) SALES TAX

Canada has long used a manufacturers sales tax as a major source of national revenue. In 1951 the rate of this tax was raised from 8 percent to 10 percent; after December 31, 1951, the revenues which are collected from the additional 2 percentage points have been set aside for old-age security benefits, and, therefore, do not appear as general budgetary revenue.

The current budget makes no change in the sales-tax rate, but does add several items to the list of existing exemptions from the sales tax. In general terms the items added to the exemption list fall in two broad categories: books and certain business-cost items.[5] The business-cost items exempted from the sales tax include materials used in the

[5] The resolution adding books to the exempt list is as follows: "(a) books, printed and bound, which contain no advertising and which are solely for educational, technical, cultural or literary purposes, and materials used exclusively in the production thereof, but without limiting the generality of the foregoing, not including directories, price lists, time tables, rate books, catalogues, periodic reports, fashion books, albums, books for writing or drawing upon, nor any books similar to the foregoing exceptions."

Also added to the exempt list are "(b) school and college year books and materials used exclusively in the production thereof;".

production of books and newspapers (newsprint for export was already exempt from the sales tax); materials used in the manufacture of foods already exempt from the sales tax; and materials not already exempt which are consumed or expended in the manufacture or production of other goods.

It is estimated that these changes in the base of the sales tax will result in the loss of about $8 million of revenue both in the fiscal year ending March 31, 1954, and in a full year of operation. Two additional million dollars of sales-tax revenue is expected to be lost because the reduction in the excise tax on cigarettes (explained below) reduces the base on which the sales tax on cigarettes is imposed. Also, there will be a $2 million loss of sales-tax revenue to the social-security fund. This, however, is not a budgetary loss.

(D) OTHER EXCISE TAXES

The budget presented in Canada in 1952 provided for a substantial downward revision in excise tax rates. This year, however, the budget proposes relatively few changes in the excise tax structure. The most important change proposed was a decrease in the excise tax rate on cigarettes from 20 cents per standard pack of 20 cigarettes, to 16 cents per pack. This can be compared with the tax in the United States of 8 cents per pack. The smuggling of cigarettes into Canada was the principal reason given for the excise tax reduction on cigarettes.

Significant changes were also made in the Canadian stamp and documentary taxes. The stamp tax on bank checks, money orders, travelers checks, bills of exchange, and promissory notes was repealed. This tax amounted to 3 cents on checks, etc., up to $100, and 6 cents on checks, etc., of $100 and over. This tax was repealed because it was of the "nuisance variety." Also repealed was the security transfer tax on changes in ownership of bonds, stock, and interests in property. The tax on bonds transferred was 3 cents per $100 of par value, and the tax on stock and property interests transferred varied according to a specific schedule of rates. Where the sale price or market value was below $1 per share, the tax was one-tenth of 1 percent of the value; on prices between $1 and $5 per share, the tax was one-fourth of 1 percent per share; on prices between $5 and $25, 1 cent per share; on prices between $25 and $50, 2 cents per share; on prices between $50 and $75, 3 cents per share; on amounts between $75 and $150, 4 cents per share; and on prices over $150, 4 cents per share plus one-tenth of 1 percent of the value in excess of $150. In the United States, stamp taxes are imposed both on issues and transfers of bonds and stocks. The transfer tax on bonds is 5 cents per $100 of face value or fraction, while the tax on stock transfers varies from 5 to 6 cents per $100 of face value or per share.

The third important change in the Canadian excise taxes relates to the radio license tax, the revenue of which is devoted to the maintenance of the Canadian Broadcasting Company and therefore represents a nonbudgetary receipt. Previously Canada has imposed a license fee of $2.50 for the first radio in each home, plus all radios in automobiles. This tax is repealed as of April 1, 1953. To make up this revenue loss to CBC, the revenue derived from the 15-percent manufacturers' excise tax on the sale of radios is to be earmarked for its use. To provide for television programing the 15-percent excise tax on television sets and picture tubes also is to be set aside for CBC. The effect on Canadian taxpayers of these actions with respect to CBC's revenues will be to reduce their taxes by about $6 million a year. This represents the repeal of the radio license tax which does not affect budgetary receipts. The earmarking of the television and radio manufacturers' excise taxes for the Canadian Broadcasting Company is expected to increase budgetary expenditures by about $12 million in the fiscal year ending March 31, 1954.

Three other minor changes were made in the excise tax structure. The 15-percent tax on cameras was extended to camera lenses when sold separately except when sold for industrial or professional photographers' use. The 15-percent tax on replacement of tires and tubes was extended to tires and tubes for use on trailers, etc. The point at which the 15-percent tax on candy is imposed was shifted in the case of a wholesaler or distributor who buys in bulk from a manufacturer and packages the candy himself. Previously the tax in such cases attached at the manufacturer's level; effective February 19, 1953, the tax in such cases attaches at the wholesalers' or distributors' level and thus includes the value of his packaging. This shift in base from the manufacturer to the wholesaler was also made in the case of the sales tax.

It is anticipated that the excise reductions proposed this year will decrease revenues both in the fiscal year 1954 and in a full year of operation by about $30 million. Fifteen million of this loss represents the reduction in the tax on cigarettes; $12 million, the repeal of the stamp tax on checks, etc.; and $3 million, the repeal of the security transfer tax. This will reduce anticipated collections in the fiscal year ending March 31, 1954, from excise duties and excise taxes other than the sales tax from $580 million to $550 million. In addition, the reduction in the tax on cigarettes decreases the base on which the sales tax is applied. As a result there is a $2 million sales-tax loss attributable to the reduction in the excise tax on cigarettes.

Tables 15 and 16 show the principal excise taxes imposed by Canada and the United States, together with the changes made in these taxes since the outbreak of hostilities in Korea. These tables indicate that Canada has provided increases in excise taxes in two actions taken since the beginning of hostilities in Korea, namely, the budget presented in September 1950, and the budget presented April 1951. The first of these two budgets increased the tax on distilled spirits and malt used in beer to their present levels, increased a long list of selective manufacturers' excises from 10 percent to 15 percent, imposed some additional excises at 15 percent, and imposed 30 percent manufacturers' excises on candy, soft drinks, and chewing gum. The increases provided for in the budget presented in April 1951 raised the tax on cigarettes to 23 cents a pack, increased the 15 percent selective manufacturers' excise taxes to 25 percent, imposed 15 percent manufacturers' tax on stoves, washing machines, and refrigerators, and decreased the tax on candy and chewing gum from 30 percent to 15 percent.

TABLE 16.—*Principal excise taxes imposed by the United States with changes made since the outbreak of hostilities in Korea*—Continued

Commodity, etc., taxed	Taxes in effect prior to hostilities in Korea	Increases provided by Revenue Act of 1951
VI. Miscellaneous excise taxes—Continued		
(v) Sugar	0.0465 cent per pound plus 0.00875 cent per pound for each additional sugar degree over 92; 0.5144 cent per pound testing less than 92.	No change.

[1] Various stamp and occupational taxes are also imposed in connection with alcoholic beverages. An additional tax is also imposed on rectified spirits and wines.
[2] Taxes are also imposed on cigarette papers, tubes, and leaf tobacco sold or shipped in violation of law.
[3] The Revenue Act of 1950 imposed the tax on quick freeze units and television sets at 10 percent of manufacturers sales price and also increased the tax on coin-operated gaming devices from $100 to $150 per unit per year. Effective date Nov. 1, 1950.
[4] White phosphorous matches are taxed at 2 cents per 100.
[5] Stamp taxes are also imposed on deeds, conveyances, certain insurance policies, and annuity contracts.
[6] No par or face value with actual value less than $100 per share taxed 3 cents each $20 or fraction.
[7] Excise taxes are also imposed with respect to certain imports, the Alaskan Railroad, certain Canal Zone properties, cotton futures, bank circulation notes, and on special types of firearms and narcotics.
[8] Leases of boxes or seats, ticket broker sales in excess of regular price and excess charges by proprietors are subject to special admissions taxes.
[9] Additional occupational taxes are imposed upon the businesses relating to these products.
[10] Repealed by Public Law 459 effective July 1, 1950. Imports still taxed at the rate of 15 cents per pound in addition to import duties.

In addition to the reductions provided in the current budget message which are discussed above, Canada also decreased excise taxes substantially in the budget presented in April 1952. In that budget the 25-percent selective manufacturers' excise taxes were returned to the 15-percent rate, the tax on soft drinks was reduced from 30 to 15 percent, and the 15-percent tax on stoves, washing machines, and refrigerators was repealed.

Practically all of the increases in excise taxes in the United States since the outbreak of hostilities in Korea were provided in the Revenue Act of 1951.[6] In general, it can be said that the increases in excise taxes in the United States have not been as large as those provided in Canada, but, on the other hand, there will not be any decreases in the peak rates imposed in the United States until April 1, 1954, while Canada provided decreases in both 1952 and 1953. Canadian and United States excise taxes experience also differs, in that Canada reduced excise taxes after the end of World War II, while the United States did not.

Tables 15 and 16 indicate considerable variation from product to product in the excise taxes imposed in Canada and the United States, although there is a marked degree of similarity in the items subject to such taxes. In comparing the excises in Canada and the United States shown on these tables, it should be remembered that the items subject to Canadian excises are also subject to the 10-percent manufacturers' sales tax imposed in Canada. Ignoring this sales tax, distilled spirits in Canada bear a lower rate of tax than that imposed in the

[6] The Revenue Act of 1950 imposed a 10-percent manufacturers' tax on quick-freeze units and television sets, and increased the tax on coin-operated gaming devices from $100 to $150 per unit per year.

United States, while the tax on beer in Canada is heavier than that provided in the United States. The Canadian tax on cigarettes even with the newly reduced rates is twice that provided in the United States. Toilet preparations, luggage, and furs are taxed more heavily in the United States, not only because the rate in the United States is 20 percent as contrasted to 15 percent in Canada, but also because a tax is imposed in this country at the retail level, while in Canada it is at the manufacturers' level. In general, most items subject to manufacturers' tax in both countries are taxed slightly more heavily in Canada than here, since in Canada the general rate applicable is 15 percent, while in the United States it is 10 percent. Canada imposes excise taxes on a number of items not subject to such taxes in the United States. These include soft drinks, candy, chewing gum, china and glassware, shaving soap and cream, and desk accessories and sets. The United States; on the other hand, imposes excise taxes on a number of items not taxed by the National Government in Canada. These include admissions, the transportation and communication taxes, wagering, gasoline, lubricating oil, business and store machines, electric-light bulbs, refrigerators, stoves, and stock and bond transfers.

V. Historical Record of Receipts, Expenditures, and Debt

Tables 17, 18, 19, and 20 contain certain financial data for Canada in recent years. Table 17 shows the total budgetary receipts and expenditures of the National Government with the resulting surplus or deficit; table 18, the National Government's receipts by major revenue sources; table 19, the National Government's outstanding debt; and table 20, the gross national product.

Table 17.—*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	3, 981	3, 733	+248
1953 [1]	4, 375	4, 327	+48
1954 [2]	4, 473	4, 462	+11

[1] Probable receipts and expenditures.
[2] As estimated after effects of proposed budget changes.

TABLE 18.—*Revenue received by the Government of Canada from various sources for the fiscal years 1945–54*

[In millions of dollars]

Source of revenue	1945	1946	1947	1948	1949	1950	1951	1952	1953 [1]	1954 [2]
Individual income tax	796.4	719.9	724.7	695.7	806.0	669.5	713.9	1,030.8	1,287.0	1,387.0
Corporation income tax	276.4	217.8	239.0	364.1	492.0	603.2	799.2	1,132.7	1,268.0	1,278.0
Excess profits tax	465.8	494.2	448.7	227.0	44.8	−1.8	10.1	2.4	------	------
Sales tax (net of refunds)	209.4	212.2	298.2	372.3	377.3	403.4	460.1	597.8	710.0	726.0
Excises:										
Liquor	73.9	93.3	100.2	100.0	103.2	109.2	131.6	123.0	138.1	(3)
Tobacco products	145.4	168.5	177.5	170.7	183.9	199.5	199.7	207.1	231.5	(3)
All other	269.6	212.4	202.1	197.5	179.1	82.4	139.3	204.0	174.4	(3)
Total excises	488.9	474.2	479.8	468.2	466.2	391.1	470.6	534.1	544.0	(3)
Less refunds	3.4	2.8	3.0	3.0	2.7	2.5	2.9	3.7	3.0	(3)
Net receipts, excises	485.5	471.4	476.8	465.2	463.5	388.6	467.7	530.4	541.0	550.0
Succession duties	17.3	21.4	23.6	30.8	25.6	29.9	33.6	38.2	38.0	40.0
Customs duties	115.1	128.9	237.4	293.0	223.0	225.9	295.7	346.4	379.0	395.0
All other	8.2	9.0	9.7	3.8	4.0	4.4	4.9	5.6	11.5	10.0
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	3,684.3	4,234.5	4,386.0
Nontax revenue, special receipts and credits	532.7	810.8	580.2	419.7	335.3	257.0	327.2	323.1	364.3	365.0
Total revenue	2,906.8	3,085.7	3,038.1	2,871.7	2,771.4	2,580.1	3,112.5	4,007.4	4,598.8	4,751.0
Less income and excess-profits tax refunds	219.5	72.5	30.2	-------	-------	-------	-------	-------	-------	-------
Less old-age security taxes on—										
Sales tax	-------	-------	-------	-------	-------	-------	-------	24.3	142.0	146.0
Individual income tax	-------	-------	-------	-------	-------	-------	-------	.1	45.3	82.0
Corporation income tax	-------	-------	-------	-------	-------	-------	-------	2.0	36.9	50.0
Total net revenue	2,687.3	3,013.2	3,007.9	2,871.7	2,771.4	2,580.1	3,112.5	3,980.0	4,374.6	4,473.0

[1] Probable receipts.
[2] Estimated, including effects of proposed budget tax changes.
[3] Not available.

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

TABLE 19.—*Net public debt of the Government of Canada*

Close of fiscal year—	Total in millions	Per capita
1939	$3,153	$280
1945	11,298	936
1947	13,048	1,040
1949	11,776	899
1950	11,645	849
1951	11,433	816
1952	11,185	775
1953 [1]	11,137	752
1954 [2]	11,126	[3] 732

[1] Probable net debt.
[2] Estimated after effects of proposed budget changes.
[3] Assuming a population of 15.2 million for 1954.

TABLE 20.—*Gross national product of Canada at market prices for calendar years 1944 through 1952*

[In millions of dollars]

Year:	Amount	Year—Continued	Amount
1944 [1]	11, 919	1949	16, 462
1945 [1]	11, 810	1950	18, 217
1946 [1]	12, 008	1951	21, 448
1947 [1]	13, 657	1952 [2]	22, 984
1948 [1]	15, 613		

[1] Excludes Newfoundland with gross national product of $175 million in 1948.
[2] 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 1952 were taken from the white paper attached to the House of Commons Debates.

O