

TAXATION IN CANADA

REPORT

TO THE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

PURSUANT TO

INTERNAL REVENUE CODE SECTION 5011 (c)

Printed for examination and use of the members of the Committee,
Committee on Finance, and Committee on Ways and Means
for purposes of information and discussion, but not
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LETTER OF TRANSMITTAL

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
August 21, 1942.

HON. WALTER F. GEORGE,
*Chairman, Committee on Finance,
United States Senate.*

MY DEAR SENATOR: There is transmitted herewith in accordance with your direction a preliminary report on taxation in Canada prepared by Mr. Bryant C. Brown of the staff of the joint committee, reviewing the tax structure under the 1942 tax laws, and the development from the pre-war period to the present. It contains data with respect to national income, debt, revenue, expenditures, and taxes compared with taxes in the United States, and statements on wage and price control, compulsory savings, and withholding taxes useful in studying the subject.

Very truly yours,

COLIN F. STAM,
Chief of Staff.

LETTER OF SUBMITTAL

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
August 21, 1942.

MR. COLIN F. STAM,
*Chief of Staff, Joint Committee on Internal Revenue Taxation,
Washington, D. C.*

DEAR MR. STAM: There is submitted herewith a preliminary report on taxation in Canada.

The report submitted covers the recently enacted taxes in Canada and makes comparison with taxes in the United States under existing law and as proposed in the 1942 revenue bill. It is divided into two sections, section 1 dealing with present law in Canada after enactment of the 1942 tax program, and section 2, for historical and comparative purposes, comparing taxation in the pre-war period with subsequent taxation. While, obviously it is not intended as an intensive treatise on taxation in Canada, it is hoped that it presents the Canadian system in sufficient outline to afford a fair understanding of the operation and effects of the tax system employed to meet its fiscal problems in wartime.

For convenience the text of the 1942 statutes amending existing tax law will be found in the appendix. Amendments to the Income War Tax Act cover individual and corporation normal income tax, amendments to the Excess Profits Tax Act of 1940 cover excess-profits taxes, and the amendments to the Special War Revenue Act cover excise and other taxes.

Very truly yours,

BRYANT C. BROWN.

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FOREWORD

Since Canada is engaged jointly with the United States in prosecuting the war, a study of their experience in meeting their economic and fiscal problems is beneficial.

Among the factors to be considered in comparing taxation in Canada with taxation in the United States are the following:

I. By agreement with the Provinces, now made statutory, only the Dominion Government occupies the field of income taxation, individual and corporate, the Provinces having given up this field for the duration of the war and a certain readjustment period thereafter, the National Government in return compensating the Provinces by guaranteeing revenue in amounts equivalent to that lost by such preemption, or equivalent to the debt service of certain Provinces.¹

II. The Canadian Government has established wide control of costs through rationing, price, and wage controls.

III. The cost of living of individuals and the cost of doing business varies with conditions in the localities in which the individuals live or the business is carried on in a given country, and especially as between different countries.

Other factors, such as differences in governmental and constitutional limitations, habits of living, production and distribution of goods may also have important bearings.

Canada's system of withholding taxes, compulsory savings, and wage control, has an important bearing on its system of taxation. In this connection, it is desired to express appreciation for permission to include in the appendix studies on these subjects prepared by Mr. John C. Jackson, of the Economic Section, Legislative Reference Service, Library of Congress.

¹ The Dominion-Provincial Taxation Agreement Act, 1942. Under this act the Minister, with the approval of the Governor in Council, may enter into agreement with certain Provinces that the Dominion will compensate them on the basis of the revenue received during the fiscal year of the province and of principalities therein ending nearest to December 31, 1940; or with certain Provinces, that such compensation will be on the basis of the net debt service paid by the province in such year. In addition, subsidies to the Provinces may be provided. In the case of gasoline, the agreement is to pay the amount by which the net receipts from this source are less than certain amounts, those amounts being the amount received from such tax imposed by the Province. The Province agrees not to increase its rates.

TAXATION IN CANADA

SECTION 1

Existing law*

The estimates of the national income of the Dominion of Canada vary from 5.2 to 6.2 billions of dollars.¹

The national debt at the close of the fiscal year ended March 31, 1942, was \$5,866,071,000.²

The following statement is taken from the budget statement of the Minister of Finance of June 23, 1942:

At the close of the fiscal year under review the gross unmatured funded debt (including treasury bills) of the Dominion outstanding amounted to \$5,866,071,000. Other liabilities, consisting chiefly of annuities, superannuation and insurance funds, post-office savings-bank deposits, and various trust and contingent funds were outstanding on the same date in an aggregate amount of \$742,949,000. The gross liabilities of the Dominion, therefore, totaled \$6,609,020,000 as at March 31, 1942. On the other side of its balance sheet, however, the Dominion had active assets of \$2,546,648,000, consisting of cash on hand and various active loans and investments (less reserves provided against ultimate loss on their realization). If, therefore, we deduct the amount of the net active assets from the amount of the gross liabilities, we arrive at a figure of \$4,062,372,000, representing the estimated net debt of the Dominion. This net debt shows an increase over the corresponding figure for the close of the preceding fiscal year of \$413,681,000, which, of course, is the amount of the over-all deficit for the fiscal year ending March 31 last.

The following is a preliminary statement or balance sheet showing the liabilities and assets of the Dominion as estimated at March 31, 1942:

* Assented to August 1, 1942.

¹ The estimate of \$6.2 billion was made by the Bank of Nova Scotia. Monthly Review, December 1941. The Dominion Bureau of Statistics has estimated the national income at \$5.2 billion, which admittedly is too low.

² Budget statement, Minister of Finance, June 23, 1942.

Liabilities—March 31, 1942 (estimated)

Bank circulation redemption fund.....		\$4, 478, 000
Post-office money orders, postal notes, etc., outstanding.....		6, 900, 000
Post-office savings-bank deposits.....		21, 678, 000
Insurance and superannuation funds:		
Government annuities.....	\$172, 970, 000	
Insurance fund:		
Civil service.....	15, 118, 000	
Returned soldiers.....	20, 574, 000	
Retirement fund.....	12, 718, 000	
Superannuation funds.....	65, 533, 000	
Unemployment-insurance fund (cash).....	5, 213, 000	
		<hr/> 292, 126, 000
Trust funds:		
Indian funds.....	14, 642, 000	
Common-school funds.....	2, 678, 000	
Contractors' securities deposits.....	6, 851, 000	
Other trust funds.....	10, 463, 000	
		<hr/> 34, 634, 000
War supplies limited.....		36, 714, 000
Contingent and special funds.....		257, 567, 000
Canadian Wheat Board—reserve for losses on wheat-marketing guaranties.....		18, 447, 000
Province debt accounts.....		11, 920, 000
Funded debt and treasury bills unmaturred.....	\$5, 866, 071, 000	
Floating debt:		
Funded debt matured and outstanding.....	6, 000, 000	
Interest due and outstanding.....	8, 485, 000	
Outstanding checks.....	44, 000, 000	
		<hr/> 5, 924, 556, 000
		<hr/> 6, 609, 020, 000

The estimated total tax revenue for the fiscal year 1941-42 was \$1,361,000,000 and the total revenue from all sources, \$1,481,000,000. It is estimated that the total from taxes for 1942-43 will be \$1,567,000,000, and the total revenue \$1,672,000,000. The ordinary expenditures for 1941-42 were \$444,000,000 and the expenditures on account of war, \$1,400,000,000, a total of \$1,844,000,000, making an excess of expenditure over revenue of \$363,000,000. The total ordinary expenditures for 1942-43 are estimated at \$455,000,000, and war expenditures at \$3,445,000,000, totalling \$3,900,000,000, making an excess of expenditure over revenue of \$2,228,000,000 for 1942-43.¹

The following tables show the detail of the revenue and expenditures estimated for 1941-42 and for 1942-43. The percentage of revenue from specific taxes to total tax revenue is shown for the fiscal years 1941-42 and 1942-43; and the percentage of revenue and of expenditure items to total revenue and total expenditures for the fiscal year 1941-42.²

¹ Budget statement, Minister of Finance, June 23, 1942.

² Budget Statement, Minister of Finance, June 23, 1942.

Canada—Comparison of estimated revenue and expenditures, fiscal years 1941-42,
1942-43

	1942-43 (millions)	Percentage to total tax revenue	1941-42 (millions)	Percentage to total tax revenue
ORDINARY REVENUE				
Income tax.....	\$468	29.9	\$404	29.7
National defense tax (normal tax 1942-43).....	150	9.7	107	7.9
Excess-profits tax.....	275	17.5	135	9.9
Succession duties.....	15	.9	7	.5
Customs duties.....	135	8.6	142	10.4
Excise duties.....	123	7.8	110	8.1
Sales tax, manufacturers.....	218	13.9	236	17.3
War exchange tax.....	95	6.1	101	7.4
Other excise taxes.....	85	5.4	116	8.6
Other tax revenue.....	2.6	.2	2.6	.2
Total revenue from taxes.....	1,567	100.0	1,361	100.0
Nontax revenue.....	105	-----	103	-----
Total ordinary revenue.....	1,672	-----	1,463	-----
Special receipts and other credits.....	-----	-----	17.8	-----
Total revenue.....	1,672	-----	1,481	-----
EXPENDITURES				
Ordinary expenditures.....	455	-----	444	-----
War expenditures.....	3,445	-----	1,400	-----
Total expenditures.....	3,900	-----	1,844	-----
Excess of expenditures over receipts.....	2,228	-----	363	-----

Ordinary revenues and expenditures and percentage distribution, 1941-42

Revenues	Amount (estimated) (millions)	Percentage of total revenues	Percentage to total expend- itures
Ordinary revenue—			
Income tax.....	\$403, 607	27. 25	21. 30
National defense tax.....	106, 637	7. 20	5. 63
Excess-profits tax.....	135, 168	9. 12	7. 13
Succession duties.....	6, 957	. 47	. 37
Customs-import duties.....	142, 392	9. 61	7. 52
Excise duties.....	110, 091	7. 43	5. 81
Sales tax.....	236, 184	15. 94	12. 46
War-exchange tax.....	100, 874	6. 81	5. 32
Manufacturers, transportation, and com- munication, stamp taxes, etc.....	116, 368	7. 86	6. 14
Other tax revenues (miscellaneous).....	2, 637	. 18	. 14
Total revenue from taxes.....	1, 360, 915	91. 87	71. 82
Nontax revenues.....	102, 569	6. 92	5. 41
Total ordinary revenue.....	1, 463, 484	98. 79	77. 23
Special receipts and other credits.....	17, 801	1. 21	. 94
Grand total revenues.....	1, 481, 285	100. 00	78. 17
Expenditures	Amount (estimated) (millions)	Percentage of total expend- itures	Percentage to total revenues
Ordinary expenditure—			
Interest on public debt.....	\$154, 270	8. 14	10. 41
Cost of loan flotations and amortiza- tion charges.....	16, 430	. 87	1. 11
Public debt charges.....	170, 700	9. 01	11. 52
Subsidies to provinces.....	14, 409	. 76	. 97
Compensation to provinces under taxation agreements.....	21, 120	1. 11	1. 43
Old-age pensions.....	29, 612	1. 56	2. 00
Civil pensions and superannuation.....	445	. 02	. 03
Pensions and after care of soldiers—			
Pensions, war and military.....	40, 582	2. 14	2. 74
Treatment and after care of returned soldiers.....	12, 733	. 67	. 86
Total.....	53, 315	2. 81	3. 60
Agriculture.....	8, 437	. 45	. 57
Fisheries.....	1, 684	. 09	. 11
Legislation.....	2, 232	. 12	. 15
Mines and resources.....	10, 727	. 57	. 73
Post Office.....	41, 495	2. 19	2. 80
Public works.....	11, 936	. 63	. 81
Transport.....	15, 448	. 82	1. 04
All other.....	62, 409	3. 29	4. 21
Total ordinary expenditure.....	443, 969	23. 43	29. 97

The tax system of Canada has undergone four annual revisions since 1939, including the law of August 1, 1942. In this period, there have been added to the taxes in force prior to 1939 a flat rate withholding tax (national defense tax—made the normal income tax under the new law) on incomes of individuals, the excess-profits-tax on corporations and individuals carrying on business, a combination inheritance-estate tax, and numerous excise taxes. In 1941 the National Government proposed to the Provinces that if they would vacate the individual and corporation income-tax fields for the duration of the war they would be compensated and guaranteed revenue approximating the yield from these sources. Agreements have been entered into and enacted into law whereby only the National Government will impose these taxes during the war and a certain readjustment period thereafter, with the result that duplicate taxation by the Provinces and the Dominion will be avoided in the case of such taxes.

The taxes as imposed under the 1942 law are shown in the outline below:

OUTLINE OF TAXES UNDER THE LAW OF AUGUST 1, 1942

I. Income tax:

A. Individuals:

1. Normal tax, 7, 8, and 9 percent:

(a) Single persons:

If the income does not exceed \$660 per annum it is exempt.

If the income exceeds \$660 but does not exceed \$1,800, 7 percent of the income.

If the income exceeds \$1,800 but does not exceed \$3,000, 8 percent of the income.

If the income exceeds \$3,000, 9 percent of the income.

(b) Married persons:

(1) If the income does not exceed \$1,200, it is exempt.

(2) If each has separate income in excess of \$660, 7 percent of the income; provided, if the wife has separate income in excess of \$660 which is all earned income, the rate is 7 percent of her income, but the income of the husband is taxable at 7 percent only if it exceeds \$1,200.

(c) Dependents:

A credit against tax of \$28 for each, equivalent to allowance of \$400 at 7 percent.

(d) Notch provision:

The tax shall not reduce the income below the respective exemptions. If the tax would reduce the income below these amounts, the amount by which it would be so reduced shall not be payable.

(e) Estates and trusts 9 percent of the income.

2. Graduated tax—From 30 percent on the first \$500 to 85 percent on the amount in excess of \$100,000:

(a) Exemptions:

(1) Single persons, \$660.

(2) Married persons \$660, and a credit against the graduated tax of \$150.

(3) Dependents. For each dependent a credit against tax of \$80.

I. Income tax—Continued.

A. Individuals—Continued.

3. Investment income surtax:

All actual investment income in excess of \$1,500 included in taxable income, 4 percent.

4. Post-war credit:

To be refunded within definite periods after the cessation of present hostilities.

One-half of the total taxes payable provided such refund shall not exceed in the case of—

(a) Single persons, 8 percent of the income or \$800, whichever is the lesser; or

(b) Married persons, 10 percent of the income or \$1,000, whichever is the lesser; plus

(c) For each dependent 1 percent of the taxpayer's income or \$100, whichever is the lesser.

5. Excess-profits tax:

(a) On the income from business carried on by individuals.

Tax is levied on the amount of the profits of the business carried on in the taxable year in excess of the average yearly profits of the business in the base period 1936-39.

(b) Rate: 15 percent of the total business profits, or 100 percent of the excess profits, whichever is the greater.

B. Corporations:

1. Corporation income tax:

(a) Normal tax, 18 percent of net income (20 percent if consolidated return is filed).

(b) Additional tax, 12 percent of net income.

(c) Additional tax of 10 percent of net income if not subject to the 100 percent excess-profits tax. This tax shall not reduce the profits below \$5,000.

2. Excess-profits tax:

(a) 100 percent of excess profits net income after deduction of the 18 percent tax and the 12 percent tax on the excess profits tax net income.

II. Sales tax, 8 percent:

On the transfer from registered producer or manufacturer to the purchaser.

III. Excise taxes, varying rates.¹IV. Succession duties, varying rates.²V. Gift tax, varying rates.³

¹ See appendix, Exhibit 5.

² See appendix, Exhibit 1.

³ See appendix, Exhibit 2.

Comparison of normal income tax, United States and Canada under revenue bill as passed by the House and under Canadian law of Aug. 1, 1942

	United States		Canada	
	Present law	House bill	1941 law	1942 law
Normal tax.....	4 percent of net income in excess of exemption.	6 percent of net income in excess of exemption.	No normal tax. The defense tax, which under present law has become the defense tax, collected at source as follows: <i>Single persons.</i> —If income exceeds \$660 but does not exceed \$1,200, 5 percent; if in excess of \$1,200, 7 percent. <i>Married persons.</i> —If income is in excess of \$1,200, 5 percent. Tax cannot reduce income below the respective exemptions.	Normal tax: <i>Married persons.</i> —If income exceeds \$1,200, 7 percent. <i>Single persons.</i> —7 percent if income exceeds \$660 but does not exceed \$1,800; 8 percent if income exceeds \$1,800 but does not exceed \$3,000; 9 percent if income exceeds \$3,000. Tax cannot reduce income below the respective exemptions.
Personal exemptions:				
Single persons.....	\$750	\$500	\$660	\$660.
Married persons.....	\$1,500	\$1,200	\$1,200	\$660.
Dependents.....	\$400	\$400	\$28 credit against tax.	\$28 credit against tax. Equivalent to tax at 7 percent on \$400.

	United States		Canada	
	Present law	House bill	1941 law	1942 law
Personal exemptions— Continued. Earned income credit.	10 percent of earned income up to \$1,400 but not in excess of 10 percent of net income. Entire net income up to \$3,000 from whatever source considered earned income.	Same as under existing law.	Amount of earned income which is actually earned income; but if Minister is of opinion salaries or other payments are incommensurate with services actually rendered he may reduce such amounts and the amount so reduced will be taxed as income from investments.	Same as under prior law.

INDIVIDUAL INCOME TAXES

The income tax on individuals consists of a normal tax, a graduated income tax (surtax), and a surtax on investment income.

Normal tax.—There has been imposed since 1940 a defense tax which has been withheld at the source. This is made the normal tax under the new law.

If the income exceeds the exemptions of \$660 and \$1,200, the tax applies to the entire income, with a notch provision that the tax shall not reduce the income below the amount of the exemption, making the exemption operative in all cases. For example, a single person receiving \$13 per week would have annual income of \$676. The tax would be 7 percent of \$676, or \$47.32, but this would reduce the income to \$628.68; so that the amount by which the income would be so reduced is not payable, and the tax would be the difference between \$676 and \$660, or \$16.

A credit of \$28 against tax is allowed for each dependent, which is equivalent to the income-tax exemption for dependents of \$400, effective under prior law.

Normal tax rates.—The normal tax rates are fixed according to the status of the taxpayer as follows:

1. The rate is 7 percent for income in excess of \$1,200 for married persons generally and 7 percent on income in excess of \$660 for husbands and wives each having income in excess of that amount, provided that if the wife's separate income is earned income, the husband is still entitled to the \$1,200 married exemption and will be taxable at 7 percent only if it exceeds that amount; while the wife's income will be taxable if it exceeds \$660.

2. Single persons and married persons whose spouses are not resident in Canada or other part of the British commonwealth of nations, or in a country contiguous to Canada, or allied with Canada in the present war, or not legally debarred from entry into Canada, are taxed at varying normal tax rates as follows:

If the income exceeds \$660 but does not exceed \$1,800, 7 percent.

If the income exceeds \$1,800 but does not exceed \$3,000, 8 percent.

If the income exceeds \$3,000, 9 percent.

3. Income of estates and trusts is taxed at 9 percent.

Graduated income tax.—This tax is comparable to our surtax and replaces the prior general income tax. This tax, like the normal tax, cannot reduce the income below the amount of the exemptions.

The graduated tax starts at 30 percent on the first \$500 of net income in excess of the exemption and progresses to 85 percent on the income in excess of \$100,000. These rates are as follows:

On the first \$500 of income or any portion thereof, 30 percent per annum; or

\$150 upon the income of \$500; and 33 percent upon the amounts by which the income exceeds \$500 and does not exceed \$1,000; or

\$315 upon income of \$1,000; and 37 percent upon the amount by which the income exceeds \$1,000 and does not exceed \$2,000; or

\$685 upon income of \$2,000; and 41 percent upon the amount by which the income exceeds \$2,000 and does not exceed \$3,500; or

\$1,300 upon income of \$3,500; and 45 percent upon the amount by which the income exceeds \$3,500 and does not exceed \$5,000; or \$1,975 upon income of \$5,000; and 50 percent upon the amount by which the income exceeds \$5,000 and does not exceed \$8,000; or \$3,475 upon income of \$8,000; and 55 percent upon the amount by which the income exceeds \$8,000 and does not exceed \$13,000; or \$6,225 upon income of \$13,000; and 60 percent upon the amount by which the income exceeds \$13,000 and does not exceed \$20,000; or \$10,425 upon income of \$20,000; and 65 percent upon the amount by which the income exceeds \$20,000 and does not exceed \$30,000; or \$16,925 upon income of \$30,000; and 70 percent upon the amount by which the income exceeds \$30,000 and does not exceed \$50,000; or \$30,925 upon income of \$50,000; and 75 percent upon the amount by which the income exceeds \$50,000 and does not exceed \$70,000; or \$45,925 upon the income of \$70,000; and 80 percent upon the amount by which the income exceeds \$70,000 and does not exceed \$100,000; or \$69,925 upon income of \$100,000; and 85 percent upon the amount by which the income exceeds \$100,000.

Personal exemptions from graduated tax.—Under the new law the method of providing allowances for the married and dependency status is changed. Under prior law the amounts exempt before tax were, for single persons, \$750; for married persons, \$1,500; for each dependent under 21, \$400. The new law provides a uniform exemption of \$660 for single and married persons; and in addition allows a credit against tax of \$150 for married persons, and for each dependent under 18 a credit against tax of \$80.

When allowances for married persons is made through a credit against tax, in the case of a graduated tax the value of the allowance is the same for taxpayers in the lower brackets and those in the higher brackets. When the allowances are made through exemption of an amount from net income the value is greater in the progressively higher brackets. For example, under the credit method of Canada a married taxpayer having net income of \$1,200 and one having net income of \$120,000 would each get a credit of the same value, \$150. An allowance in the form of exemption from net income of \$1,500, which was the exemption under prior law, would have a value in the case of the taxpayer having net income of \$1,200 of \$339, since if the \$1,200 were taxed instead of being exempt the first \$500 would be taxed at 30 percent, the next \$500 at 33 percent, and \$200 at 37 percent, making \$339. But the value to the taxpayer with net income of \$120,000 would be the \$1,500 taxed at the highest bracket rate of 85 percent, or \$1,275.

Our method of exempting an amount from net income (\$500 for single and \$1,200 for married persons proposed under the pending revenue bill) extends this greater value on up through the higher brackets in the manner last described. As stated, Canada still retains a flat exemption of \$660 in addition to the \$150 credit against tax, which thus extends the tax value; but to the extent of the \$150 credit against tax feature the value is uniform for low and high brackets.

Investment income surtax.—The tax on investment income is a surtax of 4 percent which is applied to the actual investment income in excess of \$1,500 included in total income. If the income from investments

does not exceed \$1,500 it is not subject to this tax. If such income exceeds \$1,500 only the portion in excess of this amount bears the investment income surtax.

Limitation on earned income.—Section 6 (3) of the Income War Tax Act provides that the Minister, for the purpose of determining income, may reduce the amount of salaries, or other payments, which in his opinion are not commensurate with the service actually rendered, and the amount of such reduction shall be treated as investment income. Under our law, the limit is \$14,000. Our law allows an earned income credit against net income of one-tenth of the earned income up to \$14,000, but this credit cannot exceed one-tenth of the net income.

Total tax.—The total tax payable is the sum of the normal tax, the graduated tax, and the investment income surtax, as shown in the annual return. The tax withheld at the source is credited against the total tax liability.

Post-war refund or credit.—It is provided that a certain portion of the total tax paid in any year shall be refunded after the war. The amount of the refund thus provided is one-half of the total tax payable, not to exceed in the case of—

1. A single person, 8 percent of the income or \$800, whichever is the lesser;
 2. A married person, 10 percent of the income, or \$1,000, whichever is the lesser; and
- For each dependent, 1 percent of the income or \$100, whichever is the lesser.

Reductions in total tax limited to amount of post-war refund.—The total tax payable may be reduced by certain payments by taxpayer, but this reduction must be applied to reduce the amount of the post-war refund to which the taxpayer would be entitled and is limited to that amount. Payments which may be taken as deductions for this purpose are—

1. Payments into an approved superannuation, retirement or pension fund or plan, paid as a term of employment or in connection with membership in a trade-union.

2. Premiums on life insurance or annuity policies on the lives of the taxpayer, his spouse, and his dependents, or other installment savings contracts of a type the premiums on which cannot be postponed without substantial loss or forfeiture, if such policies or contracts were in force prior to June 23, 1942.

3. One-half of the first years' premiums and all of subsequent years' premiums on policies on the life of the taxpayer not in force prior to June 23, 1942, on the term plan or of a type that provide for payment of premiums for life or until at least 65 years of age and for a period of not less than 30 years, this deduction not to exceed \$100.

4. Principal payments on a mortgage or agreement of sale with respect to one residential property of the taxpayer registered or in effect prior to June 23, 1942, or if not registered, was an enforceable obligation of the taxpayer prior to June 23, 1942.

The total of the above deductions from tax which may be taken is limited to the amount of the post-war refunds to which taxpayers would be entitled.

Also, for taxpayers over 65 years of age having income not in excess of \$5,000 per annum, the total of the normal tax and surtax payable may be reduced by the amount of the refundable portion, in which case they will not be entitled to a post-war refund. This provision is made because it is felt such taxpayers should not be forced to save amounts which they may not live to enjoy, but the Minister of Finance in his budget speech expressed the hope that they would not take advantage of the exemption.

Time of payment of post-war refund.—It is proposed that these refunds shall be made to taxpayers or their legal representatives after the cessation of the present war at such times and in such installments as may be determined by the Governor in Council but not later than specified dates. The post-war refund in respect of income of 1942 is to be repaid not later than the end of the second fiscal year of the Government commencing after the cessation of hostilities, that in respect of 1943 income not later than the end of the third fiscal year, and so on. The fiscal year of the Government ends March 31. The law does not provide the form in which the refund shall be payable. No limitation is provided as to the use by the taxpayer of the post-war refund upon payment.

Interest.—The post-war refund will bear interest at 2 percent. It is provided by section 93 (2) of the Income War Tax Act that there shall be paid, together with the payment of the amount of the post-war refund, interest on such amount at the rate of 2 percent per annum from the 1st day of October next after the end of the year in respect of which the refundable portion of the tax on the income of the year is levied.

Reasons underlying post-war refund.—As a result of the refunds, the total net tax of taxpayers in the lower brackets will be somewhat lower than under prior law. Comparative tables will be found on pages 13, 14, and 15.

The part of the tax liability which becomes a post-war refund constitutes a form of enforced saving rather than a tax. It is proposed by this method to increase the revenue needed, and preserve the incentive for higher earnings and for greater work efficiency. The amount saved will help provide revenue to finance the war and will help taxpayers to make adjustments in the post-war period. The amount required to be saved is dependent on the amount of the income, the tax, and the family responsibility. Types of payments which taxpayer is already obligated to make such as mortgage payments and life-insurance premiums, which constitute private saving, are permitted in lieu of this enforced saving to the extent of the post-war refund. These private savings cannot easily be drawn upon during the war, and to the extent they are drawn upon they cannot be used to reduce tax liability. One of the principal objects of compulsory saving is to help keep down inflation, but the private savings referred to, it is said, do not compete with war requirements for goods or services, or add to price control difficulties as is the case when income is spent for nonessentials. The relief for such payments as for life insurance and principal mortgage payments still insures minimum saving without creating hardships for taxpayers already obligated and under contract to make payments into pension funds and on mortgages and life-insurance premiums. Enforced saving through tax-

tion is not in lieu of voluntary savings, which is still largely counted on in the fiscal plans of the Government.

Total effective tax.—The total tax effective on selected net incomes is shown in table 1 below in the case of a single person without dependents, a married person without dependents, and a married person with two dependents.

For the purposes of the table, it is assumed that all of the income is earned income up to \$30,000; and that all of the income in excess of \$30,000 is from investments. The amount of total tax shown includes the total normal tax, total graduated tax (surtax), and the investment income surtax where that would be payable. The tables show the total tax and the portion of tax which will be refundable.

TABLE 1

	Tax, single person	Refundable portion	Tax, married person, no dependents	Refundable portion	Tax, married person, 2 dependents	Refundable portion
\$600						
\$700	\$40	\$20				
\$800	98	49				
\$900	135	67				
\$1,000	172	80				
\$1,200	247	96				
\$1,500	367	120	\$217	\$108	\$49	\$24
\$1,800	493	144	343	171	127	63
\$2,000	601	160	431	200	215	108
\$2,500	826	200	651	250	435	218
\$3,000	1,064	240	884	300	668	334
\$4,000	1,594	320	1,364	400	1,148	480
\$5,000	2,128	400	1,878	500	1,662	600
\$6,000	2,685	480	2,415	600	2,199	720
\$8,000	3,865	640	3,555	800	3,339	960
\$10,000	5,112	800	4,762	1,000	4,546	1,200
\$15,000	8,379	800	7,929	1,000	7,713	1,200
\$20,000	11,829	800	11,279	1,000	11,063	1,200
\$25,000	15,496	800	14,849	1,000	14,630	1,200
\$50,000	35,703	800	34,553	1,000	37,337	1,200
\$100,000	81,137	800	78,987	1,000	78,771	1,200
\$500,000	473,104	800	462,954	1,000	462,738	1,200
\$1,000,000	963,104	800	942,954	1,000	942,738	1,200
\$5,000,000	4,883,104	800	4,782,954	1,000	4,782,738	1,200

Half of the tax collected under the proposed rates will be repaid to taxpayers, in the case of single persons, with incomes up to about \$1,000; in the case of married persons, half the tax will be refundable until the income is approximately \$1,800; and if a married person has two dependents half the tax will be refundable until the income is in excess of \$3,000.

In table 2, comparison is made of tax payable under present law in the United States and under prior law in Canada; also under the 1942 revenue bill as it passed the House of Representatives, and under the Canadian law of 1942. The comparisons show the respective tax amounts on selected net incomes in the case of single persons, a married person without dependents, and a married person with two dependents. The tax amount shown is the net tax after deduction of the amount which will be refundable after the war.

CANADA AND UNITED STATES
TABLE 2.—Single person, no dependents

Net income before personal exemption	United States			Canada			
	Present law	Effective rate, percent	House bill	1941 law	Effective rate, percent	1942 law ¹	Effective rate, percent
\$600			\$15				
\$700			34	2.6	\$35	\$20	2.9
\$800	\$3	0.4	52	4.8	48	49	6.1
\$900	11	1.2	71	7.8	68	68	7.6
\$1,000	21	2.1	89	8.9	88	92	9.2
\$1,200	40	3.3	126	10.5	128	151	12.6
\$1,500	69	4.6	181	12.1	218	247	16.5
\$1,800	98	5.4	236	13.1	286	349	19.4
\$2,000	117	5.9	273	13.7	340	441	22.1
\$2,500	165	6.6	365	14.6	475	626	25.0
\$3,000	221	7.4	472	15.7	623	824	27.5
\$4,000	347	8.7	686	17.2	955	1,274	31.9
\$5,000	483	9.7	920	18.4	1,333	1,728	34.6
\$6,000	649	10.8	1,174	19.6	1,740	2,205	36.8
\$8,000	1,031	12.9	1,742	21.8	2,630	3,225	40.3
\$10,000	1,493	14.9	2,390	23.9	3,600	4,312	43.1
\$15,000	2,994	20.0	4,366	29.1	6,278	7,579	50.5
\$20,000	4,929	24.6	6,816	34.1	9,105	11,029	55.1
\$25,000	7,224	28.9	9,626	38.5	12,083	14,696	58.8
\$50,000	20,882	41.8	25,811	51.6	28,393	34,903	69.8
\$100,000	53,214	53.2	64,641	64.6	64,348	80,337	80.3
\$500,000	345,654	69.1	414,616	82.9	411,720	472,304	94.5
\$1,000,000	733,139	73.3	854,616	85.5	891,683	962,304	96.2
\$5,000,000	3,923,124	78.5	4,374,616	87.5	4,731,683	4,882,304	97.6

¹ Total tax after giving effect to post-war refund.

TABLE 3.—Married person, no dependents

Net income before personal exemption	United States				Canada			
	Present law	Effective rate, percent	House bill	Effective rate, percent	1941 law	Effective rate, percent	1942 law	Effective rate, percent
\$600								
\$700								
\$800								
\$900								
\$1,000								
\$1,200								
\$1,500								
\$1,600	\$6	0.4	\$48	3.2	\$75	5.0	\$109	7.8
\$1,800	23	1.3	66	4.2	95	5.9	129	8.1
\$2,000	42	2.1	103	5.7	135	7.5	172	9.6
\$2,500	90	3.6	140	7.0	175	8.8	231	11.6
\$3,000	138	4.6	232	9.3	275	11.0	401	16.0
\$4,000	249	6.2	324	10.8	400	13.3	584	19.6
\$5,000	375	7.5	532	13.3	675	16.9	964	24.1
\$6,000	521	8.7	746	14.9	1,000	20.0	1,378	27.6
\$8,000	873	10.9	992	16.5	1,365	22.8	1,815	30.3
\$10,000	1,305	13.1	1,532	19.2	2,180	27.3	2,755	34.4
\$15,000	2,739	18.3	2,152	21.5	3,080	30.8	3,762	37.6
\$20,000	4,614	23.1	4,052	27.0	5,625	37.5	6,929	46.2
\$25,000	6,864	27.5	6,452	32.3	8,330	41.7	10,279	51.4
\$50,000	20,439	40.9	9,220	36.9	11,185	44.7	13,849	55.4
\$100,000	52,704	52.7	25,328	50.7	26,965	53.9	33,553	67.1
\$500,000	345,084	69.0	64,060	64.1	61,875	61.9	77,987	78.0
\$1,000,000	732,554	73.3	414,000	82.8	401,120	80.2	461,954	92.4
\$5,000,000	3,922,524	78.5	854,000	85.4	871,045	87.1	941,954	94.2
			4,374,000	87.5	4,631,045	92.6	4,781,954	95.6

TABLE 4.—Married person, 2 dependents

Net income before personal exemption	United States				Canada			
	Present law	Effective rate, percent	House bill	Effective rate, percent	1941 law	Effective rate, percent	1942 law	Effective rate, percent
\$600								
\$700								
\$800								
\$900								
\$1,000								
\$1,200								
\$1,500								
\$1,800								
\$2,000					\$50	2.8	\$25	0.1
\$2,500	\$12	0.5	\$80	3.2	60	3.0	107	5.3
\$3,000	58	1.9	172	5.7	115	4.6	217	8.7
\$4,000	154	3.9	356	8.9	215	7.2	334	11.1
\$5,000	271	5.4	570	11.4	450	11.3	668	16.7
\$6,000	397	6.6	784	13.1	735	14.7	1,062	21.2
\$8,000	717	9.0	1,292	16.2	1,070	17.8	1,479	24.7
\$10,000	1,117	11.2	1,880	18.8	1,842	23.0	2,379	29.7
\$15,000	2,475	16.5	3,716	24.8	2,710	27.1	3,346	33.5
\$20,000	4,287	21.4	6,036	30.2	5,209	34.7	7,513	50.1
\$25,000	6,480	25.9	8,756	35.0	7,890	39.5	9,863	49.3
\$50,000	19,967	39.9	24,776	49.6	10,721	42.9	13,430	53.7
\$100,000	52,160	52.2	63,396	63.4	26,437	52.9	36,137	72.3
\$500,000	344,476	68.9	413,296	82.7	61,299	61.3	77,571	77.6
\$1,000,000	731,930	73.2	853,296	85.3	400,408	80.1	461,538	92.3
\$5,000,000	3,921,884	78.4	4,373,296	87.5	870,293	87.0	941,538	94.2
					4,630,293	92.6	4,781,538	95.6

It will be noted that if comparison is made of the net tax payable the amounts payable under the bill as passed by the House of Representatives is greater than or equal to that of Canada in the case of single persons on income up to about \$1,000. The effective exemption for single persons in Canada is \$660 for both the normal tax and the graduated tax, and the tax may not reduce the income below \$660; while the exemption under the House bill is \$500 for normal tax and surtax.

For married persons without dependents the tax starts in a lower bracket and is greater all along the line under the Canadian revision. The married exemptions in Canada are, for the normal tax \$1,200 and for the graduated tax a flat \$660 plus a credit against tax of \$150. Taxes may not reduce the income below \$1,200.

Also for married persons with two dependents the tax starts in a lower bracket and is greater all along the line.

However, attention is called again to the fact that the income tax field is occupied only by the National Government and not by the Provinces. In the United States, the National, State, and some local governments levy income taxes. It is true that the Federal Government allows a deduction from gross income for taxes paid to States and local governments; however, since this deduction is from gross income the tax relief is not great. Tax payers have their income taxed by two or more jurisdictions, and the effective tax payable by individuals in the United States varies according to the jurisdiction in which they are subject to tax, while in Canada an individual pays the same tax on the same amount of income wherever he may be resident.

Attention is also directed again to the factor of controlled wages in Canada, which would make taxes a more effective curb on inflation than in a country having no such control. While in effect, ceilings are placed on wages in Canada they are not absolutely frozen, for the reason that wages may be increased by the controlling body according to the rise in the index of the cost of living. See exhibit 7 of the appendix.

Excess-profits tax on unincorporated taxpayers.—The excess-profits tax is applicable to unincorporated taxpayers with respect to that portion of the income derived from the carrying on of a business. Under section 3 of the Excess-Profits Tax Act of 1940 the tax is imposed upon the annual profits or the excess profits, as the case may be, of the business of such taxpayer.

The excess profits consist of the amount of the current business profits as computed for normal tax purposes in excess of the standard profits (excess-profits tax credit). Unlike the excess-profits tax on corporations, which allows deduction of normal tax on the portion of net income subject to excess-profits tax in arriving at excess profits, the individual excess-profits tax is applied to the excess as stated above first, and the excess-profits tax payable is deducted from net income in computing the individual income tax (sec. 5 (1) Income War Tax Act).

Rates.—Under the 1941 law the tax on unincorporated taxpayers was either 15 percent of the total profits (net income) or 75 percent of the excess profits, whichever is greater. Under the 1942 law, the tax is 15 percent of total profits or 100 percent of the excess profits,

whichever is greater. The tax shall not operate to reduce the income of the taxpayer from business below \$5,000.

Computation of tax.—The following examples illustrate the computation of the individual excess-profits tax. Taxpayer A, an individual, reports on a calendar-year basis net profits from business in 1942 of \$12,500 and standard profits (excess-profits credit) of \$11,800. Taxpayer B, having the same business profits for 1942, has an excess-profits credit of \$10,600.

TAXPAYER A

Net income from business	\$12,500
Standard profits (credit)	11,800
Excess profits	700
(1) Tax at 15 percent of net income	1,875
(2) Tax at 100 percent of excess profits	700

The tax is 15 percent of net income, or \$1,875.

TAXPAYER B

Net income	\$12,500
Standard profits (credit)	10,600
Excess profits	1,900
Tax at 15 percent of net income	1,875
Tax at 100 percent of excess profits	1,900

The tax is 100 percent of excess profits, or \$1,900.

The tax thus paid is deductible by the individual in computing his individual income tax.

Exemption of \$5,000.—Any business with net business profits not in excess of \$5,000 before deduction of salaries, drawings or other payments going to partners, proprietors, or shareholders, is exempt from excess-profits tax. "Shareholders" mean those having a substantial equity interest, and not those merely holding directors' qualifying shares, or holding shares merely for the purpose of qualifying the company under Dominion or Provincial law.

Collection at the source in the case of individuals.—The tax will be collected at the source to the extent of about 85 or 90 percent of the total tax liability. The details of the deduction plans were not complete when the 1942 revision was enacted. Apparently, deduction will be made along the same principles as that provided in the bill as passed by the House of Representatives in section 153. It is proposed to commence collection at the source in September 1942, and to collect as much as practicable under the new rates. During the first 4 months, the deductions will not be at the full rate which will be in effect beginning January 1, 1943, for the reason that it is desirable to give taxpayers an opportunity to adjust themselves to this change. The national defense tax (now made the normal tax) collected from January 1 through August 1942 will be credited against the tax payable on 1942 incomes. Employers will be required to deduct tax in each pay period according to the personal status. In other words, as is the case under the House bill, allowance will be made for family and dependency status. Tables will be furnished to employers by the Government showing the actual amounts to be deducted by pay periods with respect to employees with a specified income and a specific status as to the allowances to which they will be entitled. When the annual return is made, credit will be given against the total tax liability for the taxes deducted at the source,

and deductions in excess of tax liability will be refunded. Collection at the source on dividends and interest is provided at a rate of 5 percent. Effective September 1, 1942, persons making payments to specified persons of interest on unregistered bonds or debentures or of dividends are required to deduct 7 percent of such payments. Tax will be withheld at the rate of 15 percent on interest payable solely in Canadian funds, on dividends, rents, royalties, and salaries and wages which are received by nonresidents.

Installment method of payment.—This method of deduction at the source will be applicable only in the case of wages and salaries, and where the wage or salary constitutes 75 percent of the total income. For others, an installment method of payment is provided for persons having income in such forms as is not subject to deduction at the source. Such taxpayers will pay tax in four quarterly installments, estimating the tax on the basis of the previous year's income for the first two payments, and paying tax with reference to the actual income of the taxable year in the case of the third and fourth installments.

Coming into force of increased normal income tax on corporations and individuals—calendar and fiscal year taxpayers.—The provisions increasing the normal tax on individuals and corporations are applicable to income of the 1942 taxation period and fiscal periods ending therein and of all subsequent periods. This applies only in the case of the normal income tax but is applicable both in the case of individuals and corporate taxpayers. With respect to the excess-profits tax, taxpayers with fiscal years ending between June 30, 1942, and July 1, 1943, the provisions apply only to the portion of the profits which the number of days of such fiscal period since June 30, 1942, bears to the total number of days in such fiscal period; and the provisions of the law prior to the provisions increasing the tax shall apply to the portion of the profits of the fiscal period which the number of days of such period occurring before July 1, 1942, bears to the total number of days of the fiscal period. Thus, for excess-profits tax taxpayers with fiscal years will pay the increased rates on the proportion of the income earned in 1942 subsequent to June 30, 1942.

SUCCESSIONS TAXES

The taxes imposed under the Successions Duties Act may be characterized as inheritance-estate taxes. The law and the rates will be found in exhibit 1 of the appendix. The rates are based on the size of the estate, the amount of the distributive share, and the relationship of the distributee to the decedent.

GIFT TAXES

A tax on gifts is imposed by section 88 of the Income War Tax Act. It is laid upon the transfer by way of gift or donation of any property situated in or outside of Canada, by any individual residing or ordinarily resident in Canada. The rate is applicable in respect of the aggregate of all the property so transferred during the year by such individual.

The tax is applicable whether the transfer is in trust or otherwise, direct or indirect, whether the property is real, personal, tangible, or intangible, and to transfers by individuals and personal corporations.

It is payable on or before March 31 of the year following the year in which the transfer was made.

The tax is payable by the donor, but if he fails to pay the tax the donor and donee are jointly and severally liable. For table of rates, see exhibit 2 of the appendix.

Exemptions:

There shall be exempt from the tax gifts or donations—

1. By any individual the aggregate value of which in any year does not exceed \$4,000. The tax applies to the excess of the amount of gifts over \$4,000.

2. To or on behalf of any one person not exceeding in the aggregate \$1,000 in any one year.

3. Taking effect upon a death by way of bequest or devise, and property passing by intestacy.

4. To charitable or educational institutions in Canada operated exclusively as such and not for the benefit or private profit of any person, member, or shareholder.

5. To the Dominion of Canada, a Province, or political subdivision.

6. Made in any year if the aggregate value is not in excess of an amount equal to one-half the difference between the income of the taxpayer in the next preceding year and the income tax which was payable thereon.

(The value of gifts included in 2, 3, 4, and 5 are not included in the aggregate of par. 1.)

CORPORATION INCOME TAXES

Taxes on income of corporations and joint stock companies include the normal tax at a flat rate of 18 percent of net income, an additional flat-rate tax of 12 percent of net income, another flat-rate tax of 10 percent of net income as an alternative to the excess-profits tax, and a tax at 100 percent of the excess profits after deducting therefrom the amount of the 18-percent normal tax and the 12-percent flat tax on that part of the income which is subject to excess-profits tax. These taxes are discussed below in sequence.

Normal tax.—The normal tax of 18 percent of total net income has been in effect since 1939 and is retained by the 1942 law. An additional 2 percent is levied if consolidated return is filed, making a total tax of 20 percent.

Additional 12-percent tax.—The additional tax of 12 percent was imposed by the 1942 law and will apply in all cases, though it is levied under the excess-profits tax. Prior to the 1942 legislation, an additional tax of 22 percent of the annual net income was levied if it was greater than the 75-percent tax on excess profits. The 12-percent tax, together with the 10 percent alternative tax, next discussed, replaced the 22-percent tax.

Alternative tax of 10 percent of total net income.—This is levied as an alternative to the 100 percent excess-profits tax, but will always be imposed if the 100 percent excess-profits tax is not operative.

Excess-profits tax of 100 percent.—This is levied on the excess profits if it would be greater than the alternative tax of 10 percent of total net income.

Excess profits.—The income taxable as excess profits is the amount of the profits of the taxable period in excess of an excess-profits tax credit, which is the standard profits. The standard profits are the

average yearly profits of the 4 years 1936 to 1939, of a taxpayer in carrying on the same class of business as the business of the taxpayer in the year of taxation, or the standard profits ascertained under the relief provisions of section 5 of the excess-profits tax act of 1940 as amended, referred to hereafter.

Relief provisions.—In the case of taxpayers who were not carrying on business in the base period, or new businesses, the Minister of Revenue may direct that the board of referees shall ascertain the standard profits and the board shall in its sole discretion ascertain the standard profits to be such an amount as the Board thinks just, which amount shall be equal to a return on the capital employed in the business at the commencement of the first year or fiscal period in respect of which the taxpayer is subject to tax, at the rate earned by taxpayers during the base period in similar circumstances engaged in the same or an analogous class of business. In general, the maximum award where the Board ascertains the standard profits is 5 percent and the maximum award 10 percent of the capital employed in the business. The capital employed at the beginning of the period is defined in the first schedule to the act to include the cost of the assets, the accounts receivable less reserve for bad debts, the actual value of assets acquired otherwise than by purchase when they become assets of the business, and the amount of money or bank deposits actually used in the business, less the amount of any governmental subsidy, depreciation taken or which should have been taken under the law and regulations since January 1, 1917, plus accumulated depreciation reserves at January 1, 1917, such amounts on account of depletion as the board of referees deems fair and reasonable, debts and borrowed money, investments producing tax-exempt income, and unproductive assets not required for the business, whether money, bank deposits, investments or other assets which are unproductive, or not acquired for the purpose of the business.

Brief discussion of operation of excess-profits tax and relief provisions.—The measure of excess profits is the excess of profits in the taxable period over the average yearly earnings of the base period 1936–39. The invested capital basis is used only to indicate certain limitations on the standard profits (average earnings) which may be awarded taxpayers seeking relief, and such limitations are not always applicable. The discussion below indicates the types of cases where relief may be obtained and the operation of the system.

The following types of cases may come before the Board of Referees for relief:

1. *A corporation with high capital and low base period earnings.*—In such a case, the Board may grant relief of not less than 5 percent nor more than 10 percent of the invested capital. The taxpayer in such a case has the option to assert on his return what he thinks his rate of return on capital should be. For example, a taxpayer may have earned 3½ percent on his capital and he may claim the maximum of 10 percent. When the case comes before the Minister of Finance, he may agree that the taxpayer was depressed but may decide that the amount claimed was unreasonable and refer the case to the Board. The claims that come before the Board of Referees are the claims of depressed taxpayers whose claims are unreasonable.

2. *Corporations with low capital and low base period earnings.*—There are three classes of taxpayers where the capital employed in the business is abnormally low and where the base period earnings were low.

First, where the capital employed is not an important income-producing factor, as in the case of a personal service company.

Second, where through losses the capital has been abnormally impaired and the 10-percent limitation would be greatly below the actual earning power of the taxpayer.

Third, where due to extraordinary circumstances the capital employed is abnormally low.

As to the first case, while capital is defined in the law as equity capital, or assets less liabilities, the Board regards the taxpayers intended to be covered to be those such as fire-insurance companies, brokers, real-estate agents, and service types of business where no plant nor a great amount of working capital is required to carry on the business. In such cases, the Board regards the 10-percent limitation as not applicable and looks at the earning power of the taxpayer in their profitable period as compared with the base period.

In the case where capital is impaired, as where the liabilities plus depreciation computed under the law exceeds the assets, the Board looks at the earning power and not at the capital.

Where the capital is abnormally low, the capital employed may be compared with that of other companies engaged in the same business. If the ratio of capital to gross sales is very much less than in the case of others engaged in the same business, the Board may find that the capital is abnormally low and award standard profits based on earning power.

3. *New companies.*—Section 5 (a) of the act provides that the Board of Referees shall ascertain the standard profits as such an amount as the Board thinks just, being an amount equal to a return on the capital employed “at the rate earned by taxpayers during the standard period in similar circumstances engaged in the same or an analogous class of business.”

Any company which increases its capital by 33½ percent after the beginning of its last fiscal period in the base period and also issues capital stock covering such increase may apply as a new company and have the Board ascertain its profits in the same way as a new company; that is, at the rate of return on capital earned by companies in the same business in the base period. The companies whose rates of return are to be compared are to be selected by the Board and their rate of return adjusted, if necessary, to insure the similar circumstances for the taxpayers selected in order to get a proper comparison. The 10 percent of capital limitation does not apply in the case of new companies.

New capital.—In the case of new capital, an additional allowance is made of 7½ percent. Profits earned and left in the business after January 1, 1939, do not qualify as additional capital unless they are first subject to taxation in the hands of the shareholder. The reason for this rule is that if such earnings were permitted to increase the capital base without being subject to taxation in the hands of the shareholder, it would encourage a corporation to stop paying dividends, and the Government would lose a considerable amount of revenue from income taxes. Stock dividends are taxable in Canada, so that before

a corporation may get $7\frac{1}{2}$ percent on the additional capital employed by reason of profits left in the business, such profits must be capitalized and the stockholder must be taxed on the shares received. This is much more restrictive than under our law, which permits a corporation to increase its equity invested capital by the full amount of earnings and profits.

There are two provisions in the Canadian law which reduce considerably the volume of cases going to the Board of Referees. First, there is a provision that if the taxpayer had profits in 1 year of the base period which was less than 50 percent of the other 3 base period years, it can substitute for that year the average of the other 3 base period years. Thus, if the profits for 1938 were less than 50 percent of the profits of the other 3 years, the taxpayer could substitute the average of the other 3 years for 1938. Second, the law provides a minimum standard of \$5,000. This eliminates many small cases. In the case of a sole proprietor, this minimum standard was interpreted to mean \$5,000 after a salary of \$5,000.

In the case of a corporation which had low earnings in the base period, and which as a result of war expansion became a large corporation; that is, its sales and profits have increased considerably over its base period, the only relief it is entitled to is an increase in its standard profits by $7\frac{1}{2}$ percent of its increase in capital; or if its capital was increased by more than $33\frac{1}{3}$ percent, it may secure relief before the Board as a new company.

No relief is granted for the corporation normal tax of 18 percent or the 12 percent additional rate.

The Board of Referees endeavors to make its decisions promptly. The decision is usually made about a week after the case is heard.

In this connection, extensive studies by the Board of Referees of profits behavior and earnings rates failed to develop a single test, or a mathematical formula, for ascertaining standard profits. The Board has indicated that the studies have emphasized the differences rather than the similarities in the individual businesses which constitute industry; to indicate limitations on generalizations as applied to business; and that the fairest way of administering the law is to consider each claim on its merits. The Board has come to the conclusion that no uniform rate of return on capital would do justice to the diversified circumstances of all members of industry.

Profits of taxable period.—The excess-profits tax net income of the taxable period is the same as the normal tax net income for the same period except that if the corporation or joint-stock company is subject to the 100 percent excess-profits tax, the net income does not include dividends received as a result of distribution on winding up or reorganization of the business of the corporation under section 19 of the Income War Tax Act.

Rate of tax.—The rate of this tax is 100 percent of the excess profits after deduction therefrom of the amount of the 18 percent normal tax and the additional 12 percent tax thereon.

Total rate on normal tax net income.—It results that in all cases the total rate on net income of corporations if the 100 percent excess-profits tax is not operative is 40 percent (normal tax rate 18 percent, plus 12 percent additional, plus the 10 percent alternative tax). If the 100 percent excess-profits tax is operative, the total tax on net

income is 30 percent (18 percent normal tax rate, plus 12 percent additional tax rate). Of course, the corporation pays an amount equivalent to the 10 percent alternative tax through the 100 percent excess-profits tax.

Exemption where profits are not in excess of \$5,000.—If the profits of a corporation in the taxable period are not in excess of \$5,000 before providing for any payments to shareholders by way of salary, dividends, interest, or otherwise, such profits are exempt from the excess-profits tax.

Post-war refund.—As a part of the scheme of 100-percent excess-profits taxation, the 1942 law provides a post-war credit or refund. It is important to bear in mind the scheme of the normal tax and 100-percent excess-profits taxation above described in connection with the post-war credit. The portion of the tax which will be refunded after the war is an amount equal to 20 percent of the profits above the point at which the 10-percent alternative tax is equal to the 100-percent excess-profits tax.

This is only fair because otherwise a corporation paying excess-profits tax would be in a better position than one not paying excess-profits tax, since the former would be entitled to a post-war refund while the latter which pays an additional tax of 10 percent would not be entitled to the refund.

Time and manner of payment.—The post-war credit, or refundable portion, is to be repaid to taxpayers or their legal representatives after the cessation of the present war. The refundable portion in respect of 1942 income and fiscal periods ending therein are to be repaid at such times and in such installments as the Governor in Council may determine but not later than the end of the present fiscal period of the Government commencing after the cessation of hostilities as declared in a proclamation issued under the authority of the Governor in Council; the refundable portion in respect of 1943 income is to be paid in the same manner but not later than the third fiscal period of the Government, and so on. The law does not state in what form the refund will be paid.

Effect of revision of corporate taxation.—The effect of the new corporate rates is to increase the tax liability where the net income has increased by more than one-sixth of the pre-war average earnings. The 100-percent excess-profits tax will not be operative until the profits of the taxable period are in excess of 116.66 percent of such pre-war earnings. The greatest amount which any corporation can retain is 70 percent of the amount of its pre-war average profits. This limit on what any corporation can retain may be illustrated from example 1, below. In this example, the tax result is as follows:

Net income in taxable year.....	\$116, 666. 00
Standard profits (pre-war average earnings).....	100, 000. 00
Total tax.....	46, 666. 40
Effective rate of tax on net income (percent).....	40
Profit left after tax (\$116,666 less \$46,666).....	\$70, 000
Percent of pre-war average of \$100,000 retained (percent).....	70

In the above case the pre-war average earnings were \$100,000, and there is left in the taxable year after tax \$70,000, or 70 percent of the pre-war earnings.

Examples showing operation of tax on net income, excess-profits tax and post-war refund.—The examples below will show the operation of the normal, additional, and excess-profits taxes, and also the operation of the post-war credit.

In order to illustrate the point at which the 100-percent excess-profits tax becomes effective, and also the point at which a post-war credit will be payable, an example is taken where the income is just below the point of change and another where it is just beyond the point of change.

EXAMPLE 1.—*Showing the alternative 10 percent of total profits is greater than the 100 percent excess-profits tax after deduction of 18 percent normal and 12 percent flat tax*

(a) Net income.....	\$116, 666. 00
(b) Standard profits (excess-profits tax credit).....	100, 000. 00
(c) Excess profits.....	16, 666. 00

TAX

Normal tax, 18 percent on \$116,666.....	20, 999. 88
Excess-profits tax:	
12 percent flat tax on (a).....	13, 999. 92
Plus either—	
(1) 100 percent of excess profits after deduction of 18 percent normal and 12 percent flat tax on net income; or	
(2) 10 percent of total net income, whichever is greater.	
Computation under (1):	
Excess profits (c).....	\$16, 666. 00
Less 18 percent and 12 percent thereon.....	4, 999. 80
100 percent excess-profits tax.....	11, 666. 20
Computation under (2): 10 percent of total net income (a).....	11, 666. 60

The alternative 10 percent is greater than, and therefore payable, as alternative to the 100 percent excess-profits tax.

Add: Corporation normal tax.....	20, 999. 88
Excess-profits tax:	
10 percent of total net income alternative to	
100 percent excess-profits tax.....	\$11, 666. 60
12 percent flat tax.....	13, 999. 92
Total excess-profits tax.....	25, 666. 52
Total tax.....	46, 666. 40
Effective rate (percent).....	40

REFUNDABLE PORTION, EXAMPLE 1¹

(a) Tax if computed at 100 percent of excess profits.....	\$11, 666. 20
(b) Tax if computed at 10 percent of total net income.....	11, 666. 60
(c) Amount subject to a post-war refund.....	0

¹ Sec. 18 (1) of the Excess-Profits Tax Act as amended pertaining to the refundable portion reads: "There shall be refunded to the taxpayer an amount equal to twenty per centum of the profits above the point at which the tax calculated under the First Part of the Second Schedule is equal to the tax calculated under the First Part of the Second Schedule * * *." The tax under the first part of the second schedule is the 10 percent tax on the total net income, and the tax under the second part of the second schedule is the 100 percent tax on excess profits after deduction of the 18 percent and 12 percent of the income subject to the excess-profits tax.

EXAMPLE 2.—Showing the 100 percent excess-profits tax is greater than the alternative 10 percent of total net income

(a) Net income ¹	\$116, 667. 00
(b) Standard profits (excess-profits credit).....	100, 000. 00
(c) Excess profits.....	16, 667. 00

TAX

Normal tax, 18 percent on \$116,667.....	21, 000. 06
Excess-profits tax:	
12 percent flat tax on (a).....	14, 000. 04
Plus either—	
(1) 100 percent of excess profits after deduction of 18 percent normal and 12 percent flat tax on net income;	
or	
(2) 10 percent of total net income, whichever is the greater.	
Computation under (1):	
Excess profits.....	\$16, 667. 00
Less 18 percent and 12 percent thereon.....	5, 000. 10
100 percent excess-profits tax.....	11, 666. 90
Computation under (2): 10 percent of total net income (a).....	11, 666. 70

The 100 percent tax is greater than, and therefore payable as alternative to the 10 percent of total net income.

Add: Corporation normal tax.....	21, 000. 06
Excess-profits tax:	
100 percent excess-profits tax.....	\$11, 666. 90
12 percent flat tax.....	14, 000. 04
Total excess-profits tax.....	25, 666. 94
Total tax.....	46, 667. 00
Effective rate (percent).....	40+

REFUNDABLE PORTION EXAMPLE 2 ²

(a) Tax computed at 100 percent of excess profits.....	\$11, 666. 90
(b) Tax if computed at 10 percent of total net income.....	11, 666. 70
(c) Amount subject to post-war refund.....	. 20
(d) 20 percent of \$0.20.....	. 05

¹ Only \$1 greater than in example 1.

² See note 1 of example 1.

Payment of tax by corporations.—Corporations are required to pay taxes by monthly installments payable on or before the last day of each month during the 12-month period ending 6 months after the close of the taxable year, as follows:

1. During the first 8 months in such period an amount equal to one-twelfth of such tax as estimated by it on its income for the year last preceding the taxation year or on its estimated income for the taxation year at the rate for the taxation year.

2. During the last 4 months in such period, one-fourth of the amount by which the tax payable as estimated by it on its income for the taxation year at the rate for the taxation year exceeds the total tax paid during the first 8 months plus the amounts deducted from interest or dividends forming part of its income.

Any additional tax found to be due over that estimated or declared by the taxpayer must be paid immediately upon assessment and will

bear interest of 5 percent dating from 4 months after the close of the taxable year.

Coming into force of excess profits tax—calendar and fiscal year taxpayers.—The provisions of the excess-profits tax act with respect to increasing the tax are applicable to the profits of the taxation year 1942 and of fiscal periods ending therein subsequent to June 30, 1942, and of subsequent years and fiscal periods, provided that in the case of taxpayers reporting on the fiscal year basis, the provisions are applicable only to that portion of the profits earned subsequent to June 30, 1942 which the number of days of the fiscal year of the taxpayer bears to the total number of days in taxpayer's fiscal year and the provisions of the law prior to the enactment of the increasing provisions will apply to that portion of the profits of the fiscal year which the number of days of such fiscal year occurring prior to July 1, 1942 bears to the total number of days of taxpayer's fiscal year. Thus in the case of calendar year taxpayers, the increases will apply to all of the income of the taxation year 1942, and in the case of taxpayers reporting income on the fiscal year basis the increases will apply only to that portion of the income of the taxpayer earned subsequent to June 30, 1942, the income earned prior to June 30, 1942, bearing the rates of the prior law.

SALES TAX

The sales tax is retained at the basic rate of 8 percent. It is levied on the sale price of all goods produced or manufactured in Canada. The tax falls when goods are transferred from a licensed manufacturer, wholesaler, or producer to an unlicensed purchaser, and transfer from a licensed manufacturer or wholesaler to another so licensed is not taxed. Through the system of licensing pyramiding is said to be avoided.

EXCISE TAXES

The excise taxes and rates as amended are contained in the amendments to the Special War Revenue Act, exhibit 5 of the appendix, page 85.

This act imposes a retail purchase tax, the scope of which is very broad, and the rates of which vary from 25 percent upward.

SECTION 2

Taxation in the pre-war and subsequent periods compared

In order to afford a study of the Canadian tax system as it was in effect prior to the outbreak of the present war and as revised since, there is given in the following pages a brief statement of the tax structure, and tables comparing the effective taxes with taxation in the United States by periods. The law and comparative tax burden is interesting from the standpoint of the development of the tax structure from pre-war to war economy.

OUTLINE OF TAXES UNDER REVISION OF 1941

I. Income tax:		<i>Percent</i>
A. Individuals:		
1. General income tax (top rate)-----		85
(a) Personal exemptions:		
Single-----	\$750	
Married-----	1,500	
Dependents-----	400	
(b) Rates range from 15 percent on first \$1,000 of net taxable income to 85 percent on income in excess of \$500,000.		
2. Surtax (flat rate)-----		4
New surtax applicable to all investment income in excess of \$1,500 or the exemptions and allowances, if the latter exceed \$1,500. It is applicable to all income, whether earned or investment income, in excess of \$30,000 plus \$1,500, or \$31,500.		
3. National defense tax:		
In addition to all other taxes a national defense income tax is imposed as follows:		
Single persons-----		5 and 7
If gross income does not exceed \$660, exempt.		
If gross income exceeds \$660 but does not exceed \$1,200, 5 percent on entire gross income.		
If gross income exceeds \$1,200, 7 percent on entire gross income.		
Married persons:		
If gross income does not exceed \$1,200, it is exempt.		
If gross income exceeds \$1,200, entire gross income taxable at 5 percent.		
Notch provision:		
If the tax would reduce the gross income below the stated amounts of \$660 and \$1,200, then the amount by which the gross income would be so reduced shall not be payable.		
Total of rates of normal tax, surtax, and national defense tax:		
Single persons-----		96
Married persons-----		94

OUTLINE OF TAXES UNDER REVISION OF 1941—Continued

I. Income tax—Continued

A. Individuals—Continued.

	<i>Percent</i>
4. Excess-profits tax (flat rate)-----	75
On excess-profits tax net income in excess of the standard profits (average profits of period 1936-39). However, the tax shall not be less than 22 percent of the annual net income as computed for income-tax purposes without deduction of income tax paid.	
5. Gift tax (top rate)-----	25
Rates range from 7 percent on gifts up to \$5,000 to 25 percent on gifts exceeding \$1,000,000.	
Exemptions: Gifts aggregating not more than \$4,000 in any one year by one individual, and gifts to any one person not in excess of \$1,000, gifts by devise or bequest, property passing by intestacy.	

B. Corporations:

1. Corporation income tax:	
(a) Normal tax 18 percent plus minimum excess-profits tax of 22 percent-----	40
(b) If consolidated return is filed, normal tax 20 percent plus minimum excess-profits tax of 22 percent-----	42
2. Excess-profits tax-----	75
On the excess-profits tax net income in excess of the standard profits (average profits of period 1936-39). However, the tax shall not be less than 22 percent of the annual net income as computed for income-tax purposes without deduction of income tax paid.	

II. Sales tax-----	8
On transfer from registered producer or manufacturer to purchaser.	

III. Inheritance-estate tax.

IV. Excise taxes-----

OUTLINE OF TAXES UNDER PRIOR LAWS

I. Income tax:

A. Individuals:

1. General income tax (top rate)-----	78. 0
a. Personal exemptions:	
Single-----	\$750
Married-----	1, 500
Dependents-----	400
b. Rates range from 6 percent on first \$250 of net taxable income to 78 percent on income in excess of \$500,000.	
2. Investment income surtax (top rate)-----	10
From 2 to 10 percent imposed on all investment income of individuals included in any income in excess of \$5,000; and on all incomes in excess of \$14,000.	
Total general income tax and investment income surtax (top rate)-----	88
3. National-defense tax:	
In addition to all other taxes a national-defense income tax is imposed as follows:	
Single persons-----	2 and 3
If gross income does not exceed \$600, exempt.	
If gross income exceeds \$600 but does not exceed \$1,200, 2 percent on entire gross income.	
If gross income exceeds \$1,200, 3 percent on entire gross income.	

OUTLINE OF TAXES UNDER PRIOR LAWS—Continued

I. Income tax—Continued.	
A. Individuals—Continued.	
3. National-defense tax—Continued.	
Married persons:	<i>Percent</i>
If gross income does not exceed \$1,200, it is exempt.	
If gross income exceeds \$1,200, entire gross income taxable at 2 percent.	
Notch provision:	
If the tax would reduce the gross income below the stated amounts of \$600 and \$1,200, then the amount by which the gross income would be so reduced shall not be payable.	
Total of rates of normal tax, surtax, and national-defense tax:	
Single persons-----	91
Married persons-----	90
4. Excess-profits tax-----	75
On excess-profits tax net income in excess of the standard profits (average profits of period 1936-39). However, the tax shall not be less than 12 percent of the annual net income as computed for income tax purposes without deduction of income tax paid.	
5. Gift tax (top rate)-----	15.
Rates range from 5 percent on gifts up to \$25,000 to 15 percent on gifts exceeding \$1,000,000.	
Exemptions: Gifts aggregating not more than \$4,000 in any one year by 1 individual, and gifts to any one person not in excess of \$1,000, gifts by devise or bequest, property passing by intestacy.	
B. Corporations:	
1. Corporation income tax:	
(a) Normal tax 18 percent plus minimum excess-profits tax of 12 percent-----	30
(b) If consolidated return is filed, normal tax 20 percent plus minimum excess-profits tax of 12 percent-----	32
2. Excess profits tax-----	75
On the excess profits tax net income in excess of the standard profits (average profits of period 1936-39). However, the tax shall not be less than 12 percent of the annual net income as computed for income-tax purposes without deduction of income tax paid.	
II. Sales tax-----	8
On transfer from registered producer or manufacturer to purchaser.	
III. Excise taxes.	

CANADIAN TAX SYSTEM

As amended by Income War Tax Act, Special War Revenue Act, and Excess Profits Tax Act enacted as of August 7, 1940

I. INCOME TAXES

Individuals

Persons other than corporations and joint stock companies are subject to the general income tax (normal tax), the investment income surtax, and the national defense tax as herein explained.

Income is defined in section 3 of the act as follows:

SEC. 3. "Income."—For the purposes of this Act, "income" means the annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary, or other fixed amount, or as being profits from a trade or

commercial or financial or other business or calling, directly or indirectly received by a person from any office or employment, or from any profession or calling, or from any trade, manufacture or business, as the case may be whether derived from sources within Canada or elsewhere; and shall include the interest, dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and, whether such gains or profits are divided or distributed or not, and also the annual profit or gain from any other source including: * * *.

Then are set out the various inclusions referred to.

Earned income is defined in section 2 (m) as follows:

(m) "*Earned income.*"—"Earned income" means salary, wages, fees, bonuses, pensions, superannuation allowances, retiring allowances, gratuities, honoraria, and the income from any office or employment of profit held by any person, and any income derived by a person in the carrying on or exercise by such person of a trade, vocation, or calling, either alone or, in the case of a partnership, as a partner actively engaged in the conduct of the business thereof, and includes indemnities or other remuneration paid to members of Dominion, Provincial, or territorial legislative bodies or municipal councils, but shall not include income derived by way of royalties, or any income, irrespective of the source or combination of sources from which it may be derived, in excess of fourteen thousand dollars; * * *.

Investment income is defined in section 2 (n) as follows:

(n) "*Investment income.*"—"Investment income" includes any income not defined herein as "earned income" and also any amount deemed by this Act to be a dividend and any income from whatever sources derived in excess of fourteen thousand dollars; * * *.

1. *General income tax.*—A general income tax (normal tax) is imposed on net taxable incomes in excess of the personal exemptions at rates graduated according to brackets or blocks of the income. These rates range from 6 percent on the first \$250 of taxable net income in excess of the personal exemptions to 78 percent on the income in excess of \$500,000, as shown below:

On the first \$250 of net income or any portion thereof in excess of exemptions 6 percent or—

\$15 upon net income of \$250; and 8 percent upon the amount by which the income exceeds \$250 and does not exceed \$1,000 or
 \$75 upon net income of \$1,000; and 12 percent upon the amount by which the income exceeds \$1,000 and does not exceed \$2,000 or
 \$195 upon net income of \$2,000; and 16 percent upon the amount by which the income exceeds \$2,000 and does not exceed \$3,000 or
 \$355 upon net income of \$3,000; and 20 percent upon the amount by which the income exceeds \$3,000 and does not exceed \$4,000 or
 \$555 upon net income of \$4,000; and 24 percent upon the amount by which the income exceeds \$4,000 and does not exceed \$5,000 or
 \$795 upon net income of \$5,000; and 27 percent upon the amount by which the income exceeds \$5,000 and does not exceed \$6,000 or
 \$1,065 upon net income of \$6,000; and 30 percent upon the amount by which the income exceeds \$6,000 and does not exceed \$7,000 or
 \$1,365 upon net income of \$7,000; and 33 percent upon the amount by which the income exceeds \$7,000 and does not exceed \$8,000 or
 \$1,695 upon net income of \$8,000; and 35 percent upon the amount by which the income exceeds \$8,000 and does not exceed \$9,000 or
 \$2,045 upon net income of \$9,000; and 37 percent upon the amount by which the income exceeds \$9,000 and does not exceed \$10,000 or
 \$2,415 upon net income of \$10,000; and 39 percent upon the amount by which the income exceeds \$10,000 and does not exceed \$20,000 or

\$6,315 upon net income of \$20,000; and 41 percent upon the amount by which the income exceeds \$20,000 and does not exceed \$30,000 or \$10,415 upon net income of \$30,000; and 44 percent upon the amount by which the income exceeds \$30,000 and does not exceed \$40,000 or \$14,815 upon net income of \$40,000; and 47 percent upon the amount by which the income exceeds \$40,000 and does not exceed \$50,000 or \$19,515 upon net income of \$50,000; and 50 percent upon the amount by which the income exceeds \$50,000 and does not exceed \$75,000 or \$32,015 upon net income of \$75,000; and 53 percent upon the amount by which the income exceeds \$75,000 and does not exceed \$100,000 or \$45,265 upon net income of \$100,000; and 56 percent upon the amount by which the income exceeds \$100,000 and does not exceed \$150,000 or \$73,265 upon net income of \$150,000; and 59 percent upon the amount by which the income exceeds \$150,000 and does not exceed \$200,000 or \$102,765 upon net income of \$200,000; and 63 percent upon the amount by which the income exceeds \$200,000 and does not exceed \$300,000 or \$165,765 upon net income of \$300,000; and 67 percent upon the amount by which the income exceeds \$300,000 and does not exceed \$400,000 or \$232,765 upon net income of \$400,000; and 72 percent upon the amount by which the income exceeds \$400,000 and does not exceed \$500,000 or \$304,765 upon net income of \$500,000; and 78 percent upon the amount by which the income exceeds \$500,000.

2. *Personal exemptions.*—Exemptions from the general income tax are provided in section 5 (c) and (d) as shown below. The exemption for single persons is \$750 and for married persons, \$1,500.

SEC. 5. (c) *Married persons, etc.*—Fifteen hundred dollars in the case of—

(i) A married person;

(ii) A widow or widower with a son or daughter under twenty-one years of age who is dependent upon such parent for support, or with a son or daughter twenty-one years of age or over who is dependent on account of mental or physical infirmity;

(iii) An individual who maintains a self-contained domestic establishment and who actually supports therein one or more individuals dependent upon him and connected with him by blood relationship, marriage, or adoption;

(iv) A minister or clergyman in charge of a diocese, congregation, or parish, whose duties require him to maintain at his own and sole expense a self-contained domestic establishment and who employs therein on full time a housekeeper or servant.

(d) *Other persons.*—Seven hundred and fifty dollars in the case of all other persons, except corporations, associations, or trustees or other like persons acting in a fiduciary capacity; * * *.

2. *Surtax.*—The 5 percent surtax and 20 percent war surtax were repealed in 1940. The surtax on investment income was retained. All incomes above \$14,000 bear this tax in addition to the general income tax. Income below \$14,000 not defined as earned income also bears this surtax subject to an exemption of \$5,000.

Earned income (within the definition of earned income, which is salaries, wages, fees, etc., but shall not include income, irrespective of the source, in excess of \$14,000), if below \$14,000, is not subject to the investment income surtax. If the income exceeds \$14,000 such excess income is presumed to be investment income and is subject to both the general income tax and the investment income surtax. Of the income below \$14,000, the amount which is not earned income is subject to the investment income surtax, with an exemption of \$5,000 of such investment income. The investment income above \$5,000 and below \$14,000 is taxed at a preferential rate. The rates of the investment income surtax are shown below as set out in the first schedule of the Income War Tax Act of August 7, 1940.

Investment income surtax

	<i>Percent</i>
On investment income included in any income exceeding \$5,000 but not exceeding \$10,000.....	2
On investment income included in any income exceeding \$10,000 but not exceeding \$14,000.....	3
On income exceeding \$14,000 but not exceeding \$20,000.....	3
On income exceeding \$20,000 but not exceeding \$30,000.....	4
On income exceeding \$30,000 but not exceeding \$50,000.....	5
On income exceeding \$50,000 but not exceeding \$75,000.....	6
On income exceeding \$75,000 but not exceeding \$100,000.....	7
On income exceeding \$100,000 but not exceeding \$150,000.....	8
On income exceeding \$150,000 but not exceeding \$200,000.....	9
On income exceeding \$200,000.....	10

EXEMPTION: INVESTMENT INCOME SURTAX

There is no exemption from the investment income surtax other than as stated herein.

The following examples are given in official computations showing the operation of the investment income surtax:

Examples of application of investment income surtax; married person with no dependent

EXAMPLE I. INCOME, \$20,000—ALL EARNED

General tax.....	\$5, 730
Surtax:	
Exempt.....	\$14, 000
\$14,000 to \$20,000 at 3 percent.....	180
	<hr/>
General tax plus surtax.....	5, 910
National defense tax.....	400
	<hr/>
Total tax payable.....	6, 310

EXAMPLE II. INCOME, \$20,000—ALL INVESTMENT

General tax.....	\$5, 730
Surtax:	
Exempt.....	\$5, 000
\$5,000 to \$10,000 at 2 percent.....	100
\$10,000 to \$20,000 at 3 percent.....	300
	<hr/>
Total surtax.....	400
	<hr/>
General tax plus surtax.....	6, 130
National defense tax.....	400
	<hr/>
Total tax payable.....	6, 530

Investment income surtax—Continued

EXAMPLE III. INCOME, \$7,000—EARNED, \$4,000; UNEARNED, \$3,000

General tax.....	\$930
Surtax:	
Exempt.....	<u>\$5,000</u>
\$5,000 to \$7,000 at 2 percent.....	<u>40</u>
General tax plus surtax.....	970
National defense tax.....	<u>140</u>
Total tax payable.....	<u>1,110</u>

EXAMPLE IV. INCOME, \$12,000—EARNED, \$8,000; INVESTMENT, \$4,000

Charitable donations.....	<u>\$1,000</u>
Net income.....	12,000
Less charitable donations.....	<u>1,000</u>
Taxable income.....	<u>11,000</u>
General tax.....	\$2,230
Surtax:	
Exempt.....	<u>\$8,000</u>
\$8,000 to \$10,000 at 2 percent.....	40
\$10,000 to \$11,000 at 3 percent.....	<u>30</u>
Total surtax.....	<u>70</u>
General tax plus surtax.....	2,300
National defense tax.....	<u>240</u>
Total tax payable.....	<u>2,540</u>

Married person with 8 dependents

EXAMPLE V. INCOME \$8,000—EARNED, \$5,000; INVESTMENT, \$3,000

General tax.....	\$415
Surtax:	
Exempt.....	\$5,000
\$5,000 to \$8,000 at 2 percent.....	<u>60</u>
General tax plus surtax.....	475
National-defense tax.....	<u>96</u>
Total tax payable.....	<u>571</u>

EXAMPLE VI. INCOME, \$8,000—ALL INVESTMENT

General tax.....	\$415
Surtax:	
Exempt.....	\$5,000
\$5,000 to \$8,000 at 2 percent.....	<u>60</u>
General tax plus surtax.....	475
National defense tax.....	<u>96</u>
Total tax payable.....	<u>571</u>

3. *National defense tax.*—The national defense tax is deducted on the gross income if such gross income exceeds specified amounts. It is, however, computed on a net income basis. See Exhibit 11 of the appendix, p. 141. In the case of salaries and wages it is collected at the source and is imposed on all persons subject to the general income tax and the investment income surtax except certain government officials, residing outside of Canada (sec. 9). In the case of income other than income from wages and salaries the tax is not deducted at the source but returns must be made and certain deductions are allowed. It is not imposed on corporations. It is in addition to all other taxes. It is imposed when the income payments if put on an annual basis would exceed a specific amount as shown herein. If the income of a single person exceeds \$600 a year and does not exceed \$1,200 a year, the rate is 2 percent; if the income exceeds \$1,200 a year, the rate is 3 percent. In the case of a married person, if the income exceeds \$1,200 a year, the rate is 2 percent; and in the case of a husband and wife having each a separate income, a tax of 2 percent is imposed if the income of each exceeds \$600 a year.

Exemption (national defense tax).—There is no exemption from the national defense tax if the income exceeds the specific amounts mentioned, the entire income being subject to the tax when the income exceeds the amounts stated above which the tax becomes applicable. If the income of a single person is below \$600, or the income of a person in the married status is below \$1,200, such income is not subject to the tax. However, a tax credit of \$8 is allowed for each child and certain dependents, in excess of one.

Notch provision.—There is also a notch provision. If this tax would reduce the income of the taxpayer below \$600 in the case of single persons, or \$1,200 in the case of married persons, as specified in the taxing provisions, then the amount by which the income would be so reduced shall not be payable. For example, if a married person has an income of \$1,220 the national defense tax at 2 percent would be \$24.40. This would reduce the income from \$1,220 to \$1,195.60, or below \$1,200, by \$4.40. The tax, therefore, instead of being \$24.40 would be only \$20.

The national defense tax is applicable in 1940 only in respect of one-half of the income, probably for the reason that the tax was not imposed until August 1940 and it was desired to make it apply approximately to the period following the enactment of the tax.

4. *Excess-profits tax.*—Canada imposes an excess-profits tax on the annual profits, or the annual excess profits, as the case may be, of individuals as well as corporations carrying on business in Canada. The "annual profits" taxable are the same as the profits taxable for income-tax purposes. The "annual excess profits" taxable are the profits in excess of the average profits of the years 1936-39, inclusive. The rate of the excess-profits tax is 75 percent of such profits, but the tax shall not be less than 12 percent of the annual profits as computed for income-tax purposes.

The following table shows the development of the income tax over certain periods:

TABLE XXIV
Comparison of normal income tax, United States and Canada, by periods

	United States		Canada	
	Prior to Revenue Act, 1940	After Revenue Act, 1940	Prior to Aug. 7, 1940	After Aug. 7, 1940
Normal tax-----	Flat rate of 4 percent of taxable income.	Flat rate of 4 percent of taxable income. Total normal and surtax payable increased by de-fuse tax of 10 percent of amount payable.	3.6 percent on first \$1,000 to 67.2 percent on ex-cess of \$500,000. (See additional investment income tax, 2 to 10 percent.)	From 6 percent on first \$250 to 78 percent on excess over \$500,000. (Investment income sur-tax the same.)
Personal allowances:				
Single persons-----	\$1,000-----	\$800-----	\$1,000-----	\$750-----
Married persons-----	\$2,500-----	\$2,000-----	\$2,000-----	\$1,500-----
Dependents-----	\$400-----	\$400-----	\$400-----	\$400-----
Earned income credit-----	10 percent of earned in-come up to \$14,000 but not in excess of 10 percent of net income. Entire net income up to \$3,000 considered earned income.	10 percent of earned in-come up to \$14,000 but not in excess of 10 percent of net income. Entire net income up to \$3,000 considered earned income.	Distinction is made as described under rate of tax above.	Distinction is made as described under rate of tax above.

Income Tax Burden

The income-tax burden is shown in the tables below in comparison with the present income-tax burden in the United States. Table XXV shows the burden of the total general income tax, surtax, and defense tax at the rates of August 1940. Table XXVI shows the burden without the defense tax at the 1940 rates. Table XXVII shows the burden under the income tax as imposed in 1939 prior to the war.

TABLE XXV

Comparison of income-tax burden, Canada and United States married and single persons, no dependents, all income earned—*income tax and defense tax at 1940 rates*

Net income before exemption	Canada			United States		
	Single	Married	Effective rate	Single	Married	Effective rate
\$800	\$35.00	\$0.00	Percent 4.38	\$0.00	\$0.00	Percent 0.00
\$1,000	55.00	0.00	5.50	4.40	0.00	0.44
\$1,500	145.00	60.00	9.66	24.20	0.00	1.61
\$2,000	225.00	115.00	11.25	44.00	0.00	2.20
\$3,000	415.00	255.00	13.83	83.60	30.80	2.79
\$4,000	645.00	435.00	16.13	123.20	70.40	3.08
\$5,000	915.00	655.00	18.30	171.60	110.00	3.43
\$6,000	1,222.50	915.00	20.38	255.20	149.60	4.25
\$7,000	1,560.00	1,210.00	22.29	343.20	233.20	4.90
\$8,000	1,927.50	1,535.00	24.09	448.80	316.80	5.61
\$10,000	2,737.50	2,270.00	27.37	686.40	528.00	6.86
\$12,000	3,622.50	3,090.00	30.19	968.00	783.20	8.07
\$14,000	4,522.50	3,950.00	32.30	1,293.60	1,082.40	9.24
\$16,000	5,482.50	4,870.00	34.27	1,685.20	1,434.40	10.53
\$18,000	6,442.50	5,790.00	35.79	2,142.80	1,852.40	11.90
\$20,000	7,402.50	6,710.00	37.01	2,666.40	2,386.40	13.33
\$25,000	9,937.50	9,130.00	39.75	4,252.60	3,843.40	17.01
\$30,000	12,487.50	11,580.00	41.63	6,063.20	5,614.40	20.21
\$40,000	17,965.00	16,835.00	44.91	10,080.40	9,552.40	23.88
\$50,000	23,742.50	22,390.00	47.49	14,709.20	14,128.40	29.42
\$60,000	29,920.00	28,345.00	49.87	19,954.00	19,320.40	33.26
\$70,000	36,120.00	34,345.00	51.60	25,537.60	24,864.40	36.48
\$80,000	42,497.50	40,500.00	53.12	31,451.20	30,738.40	39.31
\$100,000	55,697.50	53,300.00	55.70	44,268.40	43,476.40	44.27
\$150,000	90,675.00	87,255.00	60.45	78,350.80	77,532.40	52.23
\$200,000	127,652.50	123,210.00	63.83	112,890.80	112,199.60	56.45
\$300,000	206,622.50	200,150.00	68.87	183,162.00	182,427.60	61.05

\$500,000	377,555.00	73.40	367,015.00	75.51	330,933.20	66.19	330,155.60	66.03
\$1,000,000	847,510.00	82.69	826,925.00	84.75	718,404.40	71.84	717,583.60	71.76
\$2,000,000	1,787,510.00	87.35	1,746,925.00	89.38	1,511,397.20	75.57	1,510,565.60	75.53
\$5,000,000	4,607,510.00	90.14	4,506,925.00	92.15	3,917,390.00	78.35	3,916,547.60	78.33
\$10,000,000	9,307,510.00	91.07	9,106,925.00	93.08	7,972,382.80	79.72	7,959,649.60	79.60
\$20,000,000	18,707,510.00	91.53	18,306,925.00	93.58	16,082,382.80	80.41	16,081,529.60	80.41

TABLE XXVI

Comparison income tax burden, Canada and United States, married and single persons, no dependents, all income earned, 1940 rates

Net income before exemption	Canada			United States		
	Single	Married	Effective rate Percent	Single	Married	Effective rate Percent
\$800	\$19.00	0.00	0.00	0.00	0.00	0.00
	35.00	0.00	0.00	\$4.40	0.00	0.00
\$1,500	100.00	\$30.00	0.02	24.20	0.00	0.00
\$2,000	165.00	75.00	3.75	44.00	0.00	0.00
\$3,000	325.00	195.00	6.50	83.60	\$30.80	1.03
\$4,000	525.00	335.00	8.88	123.20	70.40	1.76
\$5,000	765.00	555.00	11.10	171.60	110.00	2.20
\$6,000	1,042.50	795.00	13.25	255.20	149.60	2.49
\$7,000	1,350.00	1,070.00	15.29	343.20	233.20	3.33
\$8,000	1,687.50	1,375.00	17.19	448.80	316.80	3.96
\$10,000	2,437.50	2,070.00	20.70	686.40	528.00	5.28
\$12,000	3,262.50	2,850.00	23.75	968.00	783.20	6.53
\$14,000	4,102.50	3,670.00	26.21	1,293.60	1,082.40	7.73
\$16,000	5,002.50	4,550.00	28.44	1,655.20	1,434.40	8.97
\$18,000	5,902.50	5,430.00	30.17	2,142.80	1,852.40	10.29
\$20,000	6,802.50	6,310.00	31.55	2,666.40	2,336.40	11.68
\$25,000	9,187.50	8,630.00	34.52	4,252.60	3,843.40	15.37
\$30,000	11,587.50	10,980.00	36.60	6,063.20	5,614.40	18.71
\$40,000	16,765.00	16,035.00	40.09	10,080.40	9,552.40	23.88
\$50,000	22,242.50	21,390.00	42.78	14,709.20	14,128.40	28.26
\$60,000	28,120.00	27,145.00	45.24	19,954.00	19,320.40	32.20
\$70,000	34,020.00	32,945.00	47.06	25,537.60	24,864.40	35.52
\$80,000	40,097.50	38,900.00	48.63	31,451.20	30,738.40	38.42
\$100,000	52,697.50	51,300.00	51.30	44,268.40	43,476.40	43.48
\$150,000	86,175.00	84,255.00	56.17	78,350.80	77,532.40	51.69
\$200,000	121,652.50	119,210.00	59.61	112,890.80	112,199.60	56.10
\$300,000	197,622.50	194,150.00	64.72	183,182.00	182,427.60	60.81
\$500,000	362,555.00	357,015.00	72.51	330,933.20	330,155.60	66.03

\$1,000,000	817, 510. 00	806, 925. 00	80. 69	718, 404. 40	71. 84	717, 583. 60	71. 76
\$2,000,000	1, 727, 510. 00	1, 706, 925. 00	80. 68	1, 511, 397. 20	75. 57	1, 510, 565. 60	75. 53
\$5,000,000	4, 457, 510. 00	4, 406, 925. 00	86. 27	3, 917, 390. 00	78. 35	3, 916, 547. 60	78. 33
\$10,000,000	9, 007, 510. 00	8, 906, 925. 00	88. 14	7, 972, 382. 80	79. 72	7, 959, 649. 60	79. 60
\$20,000,000	18, 107, 510. 00	17, 906, 925. 00	89. 07	16, 082, 382. 80	80. 41	16, 081, 529. 60	80. 41

TABLE XXVII

Canada and United States—Comparison income tax burden, single and married person with no dependents, all income earned, effective on 1939 income

Net income (before exemption)	Tax, United States		Tax, Canada			
	Single	Married	Before increases, September 1939		After increases, September 1939	
			Single	Married	Single	Married
\$1,000	0	0	0.00	0.00	0.00	0.00
\$1,500	\$14	0	\$15.00	.00	\$18.00	.00
\$2,000	32	0	30.00	.00	36.00	.00
\$2,500	50	0	50.00	\$15.00	60.00	\$18.00
\$3,000	68	\$8	70.00	30.00	84.00	36.00
\$4,000	104	44	120.00	70.00	144.00	84.00
\$5,000	140	80	180.00	120.00	216.00	144.00
\$6,000	216	115	250.00	180.00	318.00	216.00
\$7,000	292	172	346.50	250.00	419.76	318.00
\$8,000	378	248	441.00	346.50	534.24	419.76
\$10,000	560	415	661.50	546.00	801.36	661.44
\$12,000	762	602	924.00	787.50	1,119.36	954.00
\$14,000	984	809	1,228.50	1,071.00	1,488.24	1,297.44
\$16,000	1,234	1,044	1,688.00	1,459.50	1,984.32	1,768.08
\$18,000	1,514	1,299	2,089.50	1,890.00	2,531.28	2,289.60
\$20,000	1,834	1,589	2,583.00	2,362.50	3,129.12	2,862.00
\$25,000	2,804	2,489	3,990.00	3,748.50	4,833.60	4,541.04
\$30,000	3,914	3,569	5,449.50	5,197.50	6,601.68	6,296.40
\$40,000	6,384	5,979	8,631.00	8,274.00	10,455.84	10,125.12
\$50,000	9,334	8,869	12,022.50	11,728.50	14,564.40	14,208.24
\$60,000	12,914	12,329	15,729.00	15,414.00	19,054.56	18,672.96
\$70,000	17,324	16,449	19,645.50	19,309.50	23,799.12	23,392.08
\$80,000	22,034	21,269	23,824.50	23,467.50	28,861.68	28,429.20
\$100,000	33,354	32,469	32,917.50	32,518.50	39,877.20	39,393.84
\$150,000	64,324	63,394	58,590.00	58,138.50	70,977.60	70,430.64
\$200,000	96,304	95,344	86,656.50	86,184.00	104,978.16	104,405.76

\$300,000	163, 264	146, 989. 50	146, 475. 00	178, 067. 28	177, 444. 00
\$500,000	305, 204	279, 226. 50	278, 649. 00	338, 262. 96	337, 563. 36
\$1,000,000	680, 184	625, 716. 00	625, 128. 00	758, 010. 24	757, 297. 92
\$2,000,000	1, 450, 174	1, 318, 716. 00	1, 318, 128. 00	1, 597, 530. 24	1, 596, 817. 92
\$5,000,000	3, 790, 164	3, 397, 716. 00	3, 397, 128. 00	4, 116, 090. 24	4, 115, 377. 92
\$10,000,000	7, 740, 154	6, 862, 716. 00	6, 862, 128. 00	8, 313, 690. 24	8, 312, 977. 92
\$20,000,000	15, 640, 154	13, 792, 716. 00	13, 792, 128. 00	16, 708, 890. 24	16, 708, 177. 92

5. *Gift tax.*—A gift tax was imposed in 1935. The present rates range from 5 percent on gifts up to and including \$25,000 to 15 percent on gifts exceeding \$1,000,000.

Base.—Transfers in trust or otherwise, direct or indirect, of tangible or intangible property. Paid by donor at time gift was made. Ten percent interest from date payable until tax paid. Failure of donor to pay makes donor and donee jointly and severally liable.

Exemptions.—Gifts aggregating not more than \$4,000 in any one year by any individual and gifts to any one person not in excess of \$1,000 in any one year; gifts by devise or bequest; property passing by intestacy; gifts to Canadian charitable or industrial institutions, to the Dominion of Canada, its Provinces or political subdivisions, and certain interfamilial transfers.

Rates.—The rates of the gift tax on the total taxable gifts made within the year are as follows:

Exceeding	Not exceeding—	Rate
		Percent
\$0	\$25,000	5
\$25,000	50,000	6
\$50,000	100,000	7
\$100,000	200,000	8
\$200,000	300,000	9
\$300,000	400,000	10
\$400,000	500,000	12
\$500,000	1,000,000	14
Over	1,000,000	15

CORPORATIONS

Corporations are subject to a normal tax on incorporated business and the excess-profits tax.

Normal tax.—The rate of the normal tax is 18 percent, or 20 percent in the case of corporations filing consolidated returns.

Excess-profits tax.—The rate of the excess-profits tax is 75 percent of the profits in excess of the standard profits. The standard profits are the average profits of the years 1936–39, inclusive. The excess-profits tax shall not be less than 12 percent of the annual profits as computed for income-tax purposes, without deducting income tax paid on the annual profits. The text of the Excess Profits Tax Act, as enacted August 7, 1940, is included in the appendix.

SALES TAX

The present rate of the Canadian sales tax is 8 percent. It is imposed on the sale price of goods produced or manufactured in Canada. It is payable only once and that by the producer or manufacturer at the time of the delivery of such goods to the purchaser, and thus pyramiding is avoided. It is second to the income tax in the amount of revenue produced.

EXCISE TAXES

Excise taxes are an important source of revenue. The excises imposed, with rates of tax, are shown below.

TABLE XXVIII

Canada—Excise duties—Revised to Oct. 31, 1940

[From Revision, Department of National Revenue, Ottawa, 1940]

Title of tax	Basis of tax	Measure of tax	Rate of tax
Spirits potable	Manufactured in Canada and entered for consumption— Canadian brandy	Per proof gallon	\$7.00
Spirits nonpotable	When used in manufacture of—	do	6.00
	(a) Pharmaceutical preparations	do	1.50
	(b) Perfumes	do	1.50
	(c) Vinegar	do	.60
	(d) Chemical compositions approved by the government in council.	do	.15
	(e) By licensed druggists	do	1.50
Spirits imported	When taken into a bonded manufactory in addition to any duties otherwise imposed.	do	.30
Malt	Screened malt manufactured in Canada and entered for consumption.	Per pound	.10
	Imported into Canada and entered for consumption—	do	.10
	Imported, crushed, or ground and entered for consumption.	do	.08
Beer or malt liquor	Brewed in whole or in part from any substance other than malt.	Per imperial gallon	.30
	Imported into Canada and entered for consumption—	do	.07
	All malt sirup suitable for brewing of beer, manufactured or produced in Canada.	Per pound	.15
Malt sirup	Imported into Canada and entered for consumption—	do	.25
	Weighing not more than 2½ pounds per M.	Per M.	6.00
	Weighing more than 2½ pounds per M.	do	11.00
Cigarettes	When sold for consumption	do	3.00
Cigars, all Canadian raw leaf tobacco.	Manufactured, all descriptions except cigarettes	Per pound	.10
Raw leaf tobacco, imported	When sold for consumption	Now dutiable under the customs tariff only.	.35
Tobacco	Manufactured, all descriptions except cigarettes	Per pound	.35

Sources: Duties of excise, Ottawa, 1940.

Canada—Excise taxes

[From Special War Revenue Act, office consolidation, Department of National Revenue, August 1940]

Title of tax	Basis of tax	Measure of tax	Rate of tax
Playing cards	When manufactured in Canada or on importation.	Per pack of 54 cards.	10 cents.
Cigars	When manufactured in Canada or on duty-paid value when imported.	Up to \$40 per M. More than \$40 per M and not more than \$110 per M. More than \$110 per M and not more than \$150 per M. More than \$150 per M and not more than \$250 per M. More than \$200 per M.	\$1 per M. \$6 per M. \$14 per M. \$20 per M.
Lighters	When manufactured in Canada or on importation.	On each.	\$32 per M. 20 percent if combined with pencils, cigarettes, or other cases, 10 percent; minimum, 10 cents each.
Wines	When manufactured in Canada and sold for consumption.	(Nonsparkling or when containing not more than 40 percent proof spirit per gallon. Champagne or sparkling wines, per gallon.	15 cents. \$1.50.
Sugar	When manufactured in Canada or on importation.	Per pound.	1 cent.
Glucose and grape sugar.	do.	do.	½ cent.
Toilet preparations.	When manufactured in Canada or on importation.	Sale price or duty paid value.	10 percent.
Toilet soaps.	do.	do.	5 percent.
Stamp tax.	On every check, money order, travelers' check, bank receipt.	{ Not exceeding \$100.	3 cents.
		{ Over \$100.	6 cents.
	Postal notes	{ 1 or less.	1 cent.
		{ Over \$1.	3 cents.
	Bills of exchange and promissory notes	{ Not exceeding \$100.	Do.
		{ Over \$100.	6 cents.

<p>Letters and post-cards for transmission by post within Canada, posted at and intended for delivery through same post office. Change of ownership of bonds and shares (i. e., stocks, bonds, and debentures).</p>	<p>On each----- On par value of bond-----</p>	<p>1 cent in addition to postage payable by sender. 3 cents for every \$100 or fraction thereof. Over \$150, 4 cents per share, plus $\frac{1}{10}$ of 1 per cent of price or value in excess of \$150. Over \$75, not more than \$150 per share, 4 cents per share. Over \$50, not more than \$75 per share, 3 cents per share. Over \$25, not more than \$50 per share, 2 cents per share.</p>
<p>Stock-transfer tax-----</p>	<p>On value of stock-----</p>	<p>Over \$5, not more than \$25 per share, 1 cent per share. \$1 or over, but not more than \$5 per share, $\frac{1}{4}$ of 1 cent per share. Less than \$1 per share, $\frac{1}{10}$ of 1 percent of the price or value.</p>
<p>Matches-----</p>	<p>According to size of package-----</p>	<p>1 cent for each 100 matches or fraction. Packages of 50 and less, $\frac{1}{2}$, $\frac{3}{10}$, $\frac{1}{4}$, $\frac{1}{5}$ of 1 cent, according to number of matches.</p>

Canada—Excise taxes—Continued

Title of tax	Basis of tax	Measure of tax	Rate of tax
Automobiles-----	On sale price when manufactured in Canada or on duty paid value when imported.	(Passenger use, seating capacity not more than 10 persons: \$700 or less----- Over \$700, not more than \$900----- Over \$900, not more than \$1,200. Over \$1,200-----	10 percent. 10 percent on \$700 plus 20 percent on the amount in excess of \$700. 10 percent on \$700 plus 20 percent on \$200 plus 40 percent on amount in excess of \$900. 10 percent on \$700 plus 20 percent on \$200 plus 40 percent on \$300 plus 80 percent on the amount in excess of \$1,200.
Tires of rubber-----	When manufactured in Canada or on importation.	Passenger use, seating capacity for more than 10 persons.	5 percent provided that the tax shall not exceed \$250 per automobile.
Inner tubes-----	do-----	do-----	Do.
Carbonic gas Cable, radio, telegraph, and long-distance telephone messages.	do----- On every message originating in Canada-----	do----- Cable, radio, and telegraph-----	Do. Do. 5 cents per message.
Long-distance telephone-----	Long-distance telephone-----	(On public-pay-station calls over 25 cents and not more than 80 cents, On each 80 cents or fraction of 80 cents. On subscriber calls over 15 cents-- Maximum tax on a single message--	5 cents. Do. 6 percent. 25 cents.

Seats, berths, and other sleeping accommodations on railways. Cigarette papers----- Cigarette paper tubes----- Cameras, phonographs, radio receiving sets and tubes.	On every seat, berth, etc., sold on a railway conveyance. ----- When manufactured in Canada or on importation.	{Seats----- {Berths, etc----- ----- Package of 100 leaves or fraction thereof. Package of 100 tubes or fraction----- 10 percent-----	10 cents each. 10 percent of sale price; minimum charge 25 cents. 5 cents. Do. 10 percent
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APPENDIX

EXHIBIT 1

SUCCESSION DUTIES ACT, 1941

Resolved, That it is expedient to enact a Succession Duties Act to provide inter alia:

1. That succession duties be levied upon or in respect of the following, that is to say:

(a) The succession to property, wherever situated, and beneficial interests therein, except real property situated outside of Canada, where the deceased was at the time of his death domiciled in Canada or in one of the provinces thereof:

(b) The succession to property situated in Canada, or to beneficial interests therein, where the deceased was at the time of his death domiciled outside of Canada.

2. That, in addition to the properties owned by the deceased at his death, the succession shall be deemed to include, for purposes of taxation, the following properties, namely:

(a) Property transferred by the deceased in his lifetime in contemplation of death;

(b) Property transferred by way of donatio mortis causa;

(c) Property transferred by gift in the lifetime of the deceased after April 29, 1941, and within three years prior to his death;

(d) Property transferred by gift in the lifetime of the deceased where benefits are reserved to the deceased during his lifetime;

(e) Property held jointly by the deceased and one or more persons and payable to or passing to the survivor or survivors, except that part of such property which was contributed by the survivor or survivors, provided that where the joint tenancy or holding is created by a person other than the deceased and the survivor or survivors, such property shall be deemed to have been contributed to equally by the deceased and the survivor or equally by the deceased and each of the survivors;

(f) Property comprised in a settlement;

(g) Annuities or other interests purchased or provided by the deceased to the extent of the beneficial interest arising on his death;

(h) Money received or receivable under policies of insurance effected by the deceased or by a personal corporation on his life in proportion to the premiums paid by the deceased or by such personal corporation;

(i) Property of which the deceased was at the time of his death competent to dispose;

(j) Property transferred to or settled on any person after April 29, 1941, by the deceased and within three years before his death in consideration of marriage;

(k) Property transferred for nominal or insufficient consideration to the extent of the difference between the consideration and the value thereof;

(l) Estates in dower or by the courtesy.

3. That the rates of taxation be based upon the following factors, namely:

(a) The "aggregate value" of the succession, that is to say, the fair market value of all property, wherever situated, owned by the deceased at the time of his death together with the fair market value of the properties mentioned in paragraph two of this resolution, after funeral expenses and debts are deducted therefrom;

(b) The value of the individual property or benefit passing to each successor; and

(c) The relationship, if any, existing between the successor and the deceased.

4. That, for the purposes of taxation, the successors or beneficiaries shall be divided into four classes, as follows:

(a) *Class A.*—The widow of the deceased, any child under eighteen years of age at the date of the death of the deceased, and any child who at that date was dependent upon the deceased for support on account of mental or physical infirmity;

(b) *Class B.*—The grandfather, grandmother, father, mother, husband, son-in-law or daughter-in-law of the deceased, or a child of the deceased eighteen years of age and over at the date of the death of the deceased, and who, at that date, was not dependent upon the deceased for support on account of mental or physical infirmity;

(c) *Class C.*—A lineal ancestor of the deceased (except the grandfather, grandmother, father, or mother) a brother or sister of the deceased or any descendant of a brother or sister, or a brother or sister of the father or mother of the deceased or any descendant of any such brother or sister;

(d) *Class D.*—Any person in any other degree of consanguinity to the deceased than as previously mentioned, or a stranger in blood to the deceased.

5. That the rates of taxation shall be according to the following scale for the values mentioned, the rates for intervening amounts to be specified in greater detail in the bill:

Rates

Aggregate value of the succession to property passing in the case of initial duties dependent on such value	Initial rates dependent on aggregate value	Value of individual benefits, including exemptions in the case of additional duties	Additional rates dependent on value of the individual benefits, including exemptions			
			Class A	Class B	Class C	Class D
	<i>Percent</i>		<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
\$1,000-----		\$1,000		1	2	2.5
\$5,000-----		5,000	2	2	2.5	3
\$10,000-----		10,000	2.25	2.5	3	3.5
\$25,000-----	0.5	25,000	2.5	3	3.5	4
\$35,000-----	1	35,000	3	3.5	4	5
\$50,000-----	1.5	50,000	3.5	4	5	6
\$75,000-----	2	75,000	4	5	6	7
\$100,000-----	2.5	100,000	5	6	7	8
\$125,000-----	3	125,000	6	7	8	9
\$150,000-----	3.5	150,000	7	8	9	10

Rates—Continued

Aggregate value of the succession to property passing in the case of initial duties dependent on such value	Initial rates dependent on aggregate value	Value of individual benefits, including exemptions in the case of additional duties	Additional rates dependent on value of the individual benefits, including exemptions			
			Class A	Class B	Class C	Class D
	<i>Percent</i>		<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
\$200,000-----	4	\$200,000	8	9	10	11
\$300,000-----	4.5	300,000	9	10	11	12
\$400,000-----	5	400,000	10	11	12	13
\$500,000-----	5.5	500,000	11	12	13	14
\$750,000-----	6	750,000	12	13	14	15
\$1,000,000-----	6.5	1,000,000	13	14	15	16
\$1,500,000-----	7	1,500,000	14	15	16	17
\$2,000,000-----	8	2,000,000	15	16	17	17
\$3,000,000-----	9	3,000,000	16	17	17	17
\$5,000,000-----	10	5,000,000	17	17	17	17

6. That the exemptions from duty under the said Succession Duties Act shall be as follows:

(a) Where the whole property passing does not exceed \$5,000, no duties shall be payable;

(b) Property passing to or for the benefit of the widow of the deceased to the extent of the first \$20,000 in value or amount;

(c) Property passing to or for the benefit of the widow to the extent of \$5,000 for each child of the deceased under 18 years of age at the time of the death of the deceased or dependent upon him for support at that time, if such child does not benefit in respect of property passing on the death of the deceased, provided that if such child does benefit the exemption shall be \$5,000 less the amount of the benefit;

(d) Property passing to or for the benefit of a child of the deceased under the age of eighteen years or dependent upon him for support at that time on account of mental or physical infirmity to the extent of the first \$5,000 in value or amount;

(e) Property passing to or for the benefit of the orphan child or children of the deceased under eighteen years of age at the time of his death or dependent upon him for support at that time on account of mental or physical infirmity, where such property does not exceed \$15,000 in value or amount, provided that this exemption shall be in addition to those provided for in the preceding paragraph (d), and provided further that where more than one child benefits the exemption herein provided for shall be divided among such children in proportion to the value of the property or benefit passing to each of them;

(f) If the deceased died from wounds inflicted, accident occurring or disease contracted on active service with the Canadian naval, military, or air forces in or beyond Canada, in such circumstances that if the deceased left a widow she would be entitled to receive a pension in respect of his death under the Canadian Pension Act; (i) the exemptions granted in the preceding paragraphs (b), (c), (d), and (e) shall be increased by 50 percent; (ii) the amount of the tax payable in respect of the succession by persons in class A and class B shall be reduced to the sum which, if accumulated at compound interest at the rate of 3 percent per annum from the date of death with

half-yearly rests, would at the expiration of the period of the normal expectation of life of a person of the age of the deceased at the time of death (calculated in accordance with approved mortality tables) amount to the tax which would otherwise be payable;

(g) Property passing to any one person and not exceeding \$1,000 in value or amount;

(h) Property passing to or for the benefit of any charitable organization in Canada operated exclusively as such and not operated for the benefit or private gain or profit of any person, member, or shareholder thereof;

(i) Property passing to or for the benefit of the Dominion of Canada or any Province or political subdivision thereof;

(j) Property given by the deceased in his lifetime and representing the ordinary or normal expenditure of the deceased;

(k) Property on which gift tax has been paid under the provisions of the Income War Tax Act, except to the extent to which the duty payable under the act exceeds the gift tax so paid.

7. That there shall be a provision in the said Succession Duties Act making the executor or administrator liable in his representative capacity for all the duties imposed thereby, and making each successor personally liable for the duty on the share of the property or benefit passing to him, with the proviso that if the executor or administrator pays the duty he shall have the right to deduct the same from the property or benefit passing to the successor.

8. That any enactment founded on the foregoing resolution shall come into force on the date when it is assented to and shall apply to deaths occurring after that date.

EXHIBIT 2

GIFT TAX RATES—CANADA

The rates which it is proposed will apply to gifts made after June 23, 1942, are shown below:

	<i>Percent</i>
On gifts up to and including \$5,000-----	10
On gifts exceeding—	
\$5,000 but not exceeding \$10,000-----	12
\$10,000 but not exceeding \$20,000-----	12
\$20,000 but not exceeding \$30,000-----	13
\$30,000 but not exceeding \$40,000-----	14
\$40,000 but not exceeding \$50,000-----	15
\$50,000 but not exceeding \$75,000-----	16
\$75,000 but not exceeding \$100,000-----	17
\$100,000 but not exceeding \$150,000-----	18
\$150,000 but not exceeding \$200,000-----	19
\$200,000 but not exceeding \$250,000-----	20
\$250,000 but not exceeding \$300,000-----	21
\$300,000 but not exceeding \$400,000-----	22
\$400,000 but not exceeding \$500,000-----	23
\$500,000 but not exceeding \$600,000-----	24
\$600,000 but not exceeding \$700,000-----	25
\$700,000 but not exceeding \$800,000-----	26
\$800,000 but not exceeding \$1,000,000-----	27
\$1,000,000-----	28

EXHIBIT 3

1942 AMENDMENTS TO INCOME WAR TAX ACT

1. Paragraphs A and AA of the First Schedule to the *Income War Tax Act*, chapter ninety-seven of the Revised Statutes of Canada, 1927, as enacted by sections one and two of chapter eighteen of the statutes of 1940-41, are repealed and the following substituted therefor:—

“A. RULES FOR COMPUTATION OF INCOME TAX UNDER SUBSECTION ONE OF SECTION NINE.

Section 1. NORMAL TAX.

Rule 1.—A normal tax equal to seven per centum of the income shall be paid by every person whose income during the taxation year exceeded \$1,200 and who was during that year:

(a) a married person, if his spouse was resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or

(b) a widow or widower with a son or daughter wholly dependent upon such person for support, if such son or daughter was, during the taxation year,

(i) under eighteen years of age; or

(ii) eighteen years of age or over and dependent by reason of mental or physical infirmity; or

(iii) under twenty-one years of age and a student at a secondary school, university or other educational institution

and resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or

(c) an unmarried person who maintained a self-contained domestic establishment and actually supported therein a person wholly dependent upon him and connected with him by blood relationship, marriage or adoption; or

(d) an unmarried minister or clergyman in charge of a diocese, parish or congregation who maintained a self-contained domestic establishment and employed therein on full-time a housekeeper or servant.

Rule 2.—If, during any taxation year, a husband and his wife each had a separate income in excess of \$660, each shall be taxed under Rule three of this section, provided, however, that a husband shall not lose his right to be taxed under Rule one of this section by reason of his wife being employed and receiving any earned income.

Rule 3.—Every person not liable to taxation under Rule one or Rule two of this section shall pay a normal tax equal to—
 seven per centum of his income if his income during the taxation year exceeded \$660 but did not exceed \$1,800;
 eight per centum of his income if his income during the taxation year exceeded \$1,800 but did not exceed \$3,000;
 nine per centum of his income if his income during the taxation year exceeded \$3,000.

Rule 4.—Notwithstanding anything in this section, the normal tax to be paid upon income taxable under subsections two and four of section eleven of this Act shall be equal to nine per centum of such income.

Rule 5.—A taxpayer may deduct from the normal tax otherwise payable by him in any year under this section \$28 for each person who was during that year wholly dependent upon such taxpayer and was

- (a) his child, grandchild, brother or sister and was
 (i) under eighteen years of age; or
 (ii) eighteen years of age or over and dependent by reason of mental or physical infirmity; or
 (iii) under twenty-one years of age and a student at a secondary school, university or other educational institution;
 or

(b) his parent or grandparent and dependent by reason of mental or physical infirmity;
 and resident in any part of His Majesty's dominions or in a country contiguous to Canada, or residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, one thousand nine hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or

(c) a child maintained by the taxpayer in Canada under a co-operative scheme sponsored by the governments of the United Kingdom and of Canada or any of the provinces of Canada for children brought from the United Kingdom under a government plan, and was

- (i) under eighteen years of age; or
 (ii) under twenty-one years of age and a student at a secondary school, university or other educational institution;

except one such dependent by reason of whom such person is taxable under Rule one of this section.

Section 2. GRADUATED TAX.

Rule 1.—For the purposes of this section, the income of every person, except trustees or other like persons acting in a fiduciary capacity, shall be subject to a deduction of \$660.

Rule 2.—In addition to the normal tax for which provision is made by section one of this paragraph a graduated tax shall be paid by every person as follows:

On the first \$500 of income or any portion thereof, 30 per centum; or \$150 upon the said income of \$500; and 33 per centum upon the amount by which the income exceeds the said \$500 and does not exceed \$1,000; or

- \$315 upon the said income of \$1,000; and 37 per centum upon the amount by which the income exceeds the said \$1,000 and does not exceed \$2,000; or
- \$685 upon the said income of \$2,000; and 41 per centum upon the amount by which the income exceeds the said \$2,000 and does not exceed \$3,500; or
- \$1,300 upon the said income of \$3,500; and 45 per centum upon the amount by which the income exceeds the said \$3,500 and does not exceed \$5,000; or
- \$1,975 upon the said income of \$5,000; and 50 per centum upon the amount by which the income exceeds the said \$5,000 and does not exceed \$8,000; or
- \$3,475 upon the said income of \$8,000; and 55 per centum upon the amount by which the income exceeds the said \$8,000 and does not exceed \$13,000; or
- \$6,225 upon the said income of \$13,000; and 60 per centum upon the amount by which the income exceeds the said \$13,000 and does not exceed \$20,000; or
- \$10,425 upon the said income of \$20,000; and 65 per centum upon the amount by which the income exceeds the said \$20,000 and does not exceed \$30,000; or
- \$16,925 upon the said income of \$30,000; and 70 per centum upon the amount by which the income exceeds the said \$30,000 and does not exceed \$50,000; or
- \$30,925 upon the said income of \$50,000; and 75 per centum upon the amount by which the income exceeds the said \$50,000 and does not exceed \$70,000; or
- \$45,925 upon the said income of \$70,000; and 80 per centum upon the amount by which the income exceeds the said \$70,000 and does not exceed \$100,000; or
- \$69,925 upon the said income of \$100,000; and 85 per centum upon the amount by which the income exceeds the said \$100,000.

Rule 3.—A taxpayer may deduct \$150 from the graduated tax otherwise payable by him in any year under this section if, during the taxation year, such taxpayer was—

(a) a married person if his spouse was resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or

(b) a widow or widower with a son or daughter wholly dependent upon such person for support, if such son or daughter was, during the taxation year,

(i) under eighteen years of age; or

(ii) eighteen years of age or over and dependent by reason of mental or physical infirmity; or

(iii) under twenty-one years of age and a student at a secondary school, university or other educational institution;

and resident in any part of His Majesty's dominions, or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in

the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or

(c) an unmarried person who maintained a self-contained domestic establishment and actually supported therein a person wholly dependent upon him and connected with him by blood relationship, marriage or adoption; or

(d) an unmarried minister or clergyman in charge of a diocese, parish or congregation, who maintained a self-contained domestic establishment and employed therein on full-time, a housekeeper or servant.

Rule 4.—A taxpayer may deduct \$80 from the graduated tax otherwise payable by him in any year under this section, for each person who was, during the taxation year, wholly dependent upon such taxpayer and was—

(a) his child or grandchild and was

(i) under eighteen years of age; or

(ii) eighteen years of age or over and dependent by reason of mental or physical infirmity; or

(iii) under twenty-one years of age and a student at a secondary school, university or other educational institution;

and was resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or

(b) a child maintained by the taxpayer in Canada under a co-operative scheme sponsored by the governments of the United Kingdom and of Canada or any of the provinces of Canada for children brought from the United Kingdom under a government plan, and was

(i) under eighteen years of age; or

(ii) under twenty-one years of age and a student at a secondary school, university or other educational institution;

except one such dependent by reason of whom such person is entitled to make a deduction under Rule three of this section.

Rule 5.—A taxpayer may deduct from the graduated tax otherwise payable by him in any year under this section, twenty per centum of any amount not exceeding \$400 expended by him during the taxation year for the support of any person who was, during the taxation year, dependent upon such taxpayer for support and was

(a) his parent or grandparent and dependent by reason of mental or physical infirmity; or

(b) his brother or sister

(i) under eighteen years of age, or

(ii) eighteen years of age or over and dependent by reason of mental or physical infirmity, or

(iii) under twenty-one years of age and a student at a secondary school, university or other educational institution;

and was resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, one thousand nine hundred and thirty-nine and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada.

Rule 6.—If, during any taxation year, a husband and his wife each had a separate income in excess of \$660 before making the deduction for which provision is made in Rule one of this section, neither of them shall be entitled to the deduction from graduated tax for which provision is made in Rule three of this section, provided, however, that notwithstanding the foregoing a husband shall not lose his right to the deduction provided in Rule three of this section by reason of his wife being employed and receiving any earned income but his wife shall for the purposes of this section be treated as an unmarried person.

Rule 7.—The deduction in respect of any dependent child, for which provision is made in Rule four of this section may, in any year, be made from the tax payable by such of his parents as may be determined by agreement between them, but if there is no such agreement, such deduction shall be made from the father's tax unless the Minister otherwise determines.

Rule 8.—No deduction shall be made under Rule three of this section from the tax of any non-resident person described by paragraphs (c), (d) or (e) of subsection one of section nine of this Act, or referred to in subsection seven of section twenty-seven of this Act unless the country in which such non-resident person resides allows a similar advantage to residents of Canada subject to tax in such country under similar circumstances.

Section 3. GENERAL.

Rule 1.—The taxes payable in accordance with the rules set out in sections one and two of paragraph A of this Schedule shall not, in the aggregate, exceed in any taxation year

(i) in the case of any person liable to taxation under Rule one of section one of this paragraph, the amount by which the taxpayer's income exceeds \$1,200; and

(ii) in the case of any other person, except persons liable to pay tax under Rule four of section one of this paragraph, the amount by which the taxpayer's income exceeds \$660.

Rule 2.—The taxes payable by any commissioned officer in the Canadian naval, military, or air forces in accordance with the rules set out in sections one and two of paragraph A of the First Schedule to this Act shall not in the aggregate exceed in any taxation year the amount by which the aggregate of such officer's income and the amount refundable to him under section ninety-three of this Act exceeds.

(a) in the case of any such officer in respect of whom no dependents' allowance is paid, sixteen hundred dollars; and

(b) in the case of any other such officer, the aggregate of sixteen hundred dollars and the dependents' allowances which would be payable to his dependents if he held the highest rank of warrant or non-commissioned officer in the service to which he belongs but

not including any allowance for more than two children: Provided that the aforesaid amount of one thousand six hundred dollars shall not apply in respect of female commissioned officers, and that the governor in council may by order fix an amount to apply in respect of such female officers, having regard to differences in pay between male and female warrant or non-commissioned officers.

AA. RATE OF TAX APPLICABLE TO ALL PERSONS OTHER THAN CORPORATIONS AND JOINT STOCK COMPANIES, IN RESPECT OF "INVESTMENT INCOME" AS PROVIDED FOR IN THIS ACT.

"On investment income in excess of \$1500—four per centum."

2. The proviso to paragraph (i) of section two of the said Act, as enacted by section six of chapter thirty-four of the statutes of 1940, is repealed and the following substituted therefor:—

"Provided that this paragraph shall not extend to a corporation or joint stock company which otherwise qualifies under this paragraph, but which in the opinion of the Minister carries on an active financial, commercial or industrial business, and the decision of the Minister on this question shall be final and conclusive."

3. (1) Paragraph (c) of subsection one of section three of the said Act, as enacted by section five of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

"(c) any payment out of any superannuation or pension fund or plan; provided, however, that in the case of a lump sum payment out of any such fund or plan which is paid upon the death, withdrawal or retirement from employment of any employee or former employee in full satisfaction of all his rights in any such fund or plan, one-third only of such lump sum payment shall be deemed to be income; and"

(2) The said section three is further amended by adding thereto the following paragraph:—

"(h) any amount received pursuant to a decree, order or judgment made by a competent tribunal in any action or proceeding for divorce or judicial separation or pursuant to a separation agreement as alimony or other allowance for the maintenance of the recipient thereof and the children of the marriage if any, if such recipient is living apart from the spouse or former spouse required to make such payment."

(3) The said section three is further amended by adding the following subsections thereto:—

"(2) Where under any existing or future contract or arrangement for the payment of money, the Minister is of opinion that

- (a) payments of principal money and interest are blended, or
- (b) payment is made pursuant to a plan which involves an allowance of interest,

whether or not there is any provision for payment of interest at a nominal rate or at all, the Minister shall have the power to determine what part of any such payment is interest and the part so determined to be interest shall be deemed to be income for the purposes of this Act.

“(3) Where any person acts in the capacity of trustee in the case where an oil or gas well is operated under an arrangement whereby any person other than the operator has an interest in the proceeds of the sale of the products thereof, such proceeds shall nevertheless be deemed, for the purposes of this Act, to be received by the trustee on his own behalf, and he shall be taxable in respect thereof at the rates prescribed for corporations in paragraph C of the First Schedule to this Act and any taxes paid by the trustee under this Act or *The Excess Profits Tax Act, 1940*, may be charged by the trustee ratably to those persons having such interest in such proceeds and deducted from the amounts due them from him.”

4. (1) Paragraphs (b) and (c) of section four of the said Act are repealed and the following substituted therefor:

“(b) The income of any officer, official or employee of the government of any country other than Canada, whose duties require him to reside in Canada

(i) if and to the extent that such country grants a similar privilege to officers, officials and employees of the government of Canada; and

(ii) if he is not engaged in any business or calling in Canada other than that required by the duties pertaining to his official position; and

(iii) if he is a national or citizen of such country.”

(2) Section four of the said Act is further amended by adding thereto the following paragraphs:

“(l) (i) Pensions granted or payable under the provisions of the *Pension Act*, or other payments in the nature of pensions which were being administered on the thirty-first day of July, one thousand nine hundred and forty-two by the Canadian Pension Commission as directed by the Governor in Council, under section six of the *Pension Act*,

(ii) Pensions granted or payable on account of disability or death arising out of war service by the government of any country which was an ally of His Majesty at the time of such war service; Provided, and to the extent that, such country grants a similar exemption in respect of such pensions payable by the government of Canada.”

“(u) Any amount received by any person as compensation under the *Workmen's Compensation Act* of any province of Canada or the *Government Employees' Compensation Act* in respect of any injury or disability incurred or in respect of any death.”

5. (1) Paragraphs (c), (d) and (ee) as enacted by chapter thirty-four of the statutes of 1940 and paragraphs (e) and (i) as enacted by section four of chapter forty-one of the statutes of 1932-33, of subsection one of section five of the said Act are repealed.

(2) Paragraph (ff) of subsection one of section five of the said Act, as enacted by section six of chapter eighteen of the statutes of 1940-41, is repealed and the following paragraph is substituted therefor:—

“(ff) The amount actually paid by an employer to an employees' superannuation or pension fund or plan, approved by the Minister for the purposes of this paragraph, in respect of the

services rendered to the employer by his employees, officers or directors, within the taxation year; provided, however, that such amount shall not exceed five per centum of the aggregate compensation paid within the taxation year to such employees, officers and directors covered by the said fund or plan after deducting from such aggregate compensation the excess above six thousand dollars paid to any such employee, officer or director, and provided further that in computing the amount actually paid by such employer the excess above three hundred dollars paid in any year in respect to the services of any such employee, officer or director shall not be allowed for the purposes of this paragraph."

(3) Paragraph (g) of subsection one of section five of the said Act, as enacted by section five of chapter thirty-eight of the statutes of 1936, is repealed and the following substituted therefor:—

"(g) The amount not exceeding three hundred dollars actually retained by an employer from the remuneration of any taxpayer in connection with an employees' superannuation or pension fund or plan, approved by the Minister for the purposes of this paragraph."

(4) Paragraph (jj) of subsection one of section five of the said Act, as enacted by section eight of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

"(jj) An amount not exceeding five per centum of the income subject to taxation of any corporation, which amount has been paid by way of donation within the taxation period to and receipted for as such by any charitable organization in Canada operated exclusively as such and not for the benefit or private gain or profit of any person."

(5) Paragraph (m) of subsection one of section five, as enacted by section five of chapter forty-eight of the statutes of 1938, is repealed and the following substituted therefor:—

"(m) In the case of any special payment made in Canada by an employer on account of an employees' superannuation or pension fund or plan in respect of past services of employees, recommended by a qualified actuary in whose opinion the resources of such fund or plan require to be augmented by such special payment for the purpose of ensuring that all obligations of the fund or plan to the employees concerned may be discharged in full, approved by the Minister, on the advice of the Superintendent of Insurance, and made in such manner that the sum paid is irrevocably charged for the benefit of the said fund or plan, one-tenth of the payment in each of ten successive years, commencing in the year in which the payment is made: Provided, however, that in the case of any payment heretofore made as approved by the Minister, a deduction of one-tenth thereof shall be allowed in the 1942 fiscal period and in each fiscal period thereafter until ten years have elapsed from the year of the said payment."

(6) Subsection one of the said section five is further amended by inserting the following paragraph after paragraph (m) thereof:—

“(n) that portion of medical expenses in excess of five per centum of the income of the taxpayer incurred and paid within the taxation period or paid within the taxation period and incurred within one year prior to the date of payment, if payment is made to any qualified medical practitioner, dentist or nurse registered under any Dominion or provincial legislation or public or provincially licensed private hospital in respect of any birth in the family of, illness of or operation upon the taxpayer or his spouse or any dependent in respect of whom he may make a deduction from his normal tax under Rule five of section one of paragraph A of the First Schedule to this Act; including the salary or wages paid to one full time attendant upon the taxpayer, his spouse or any such dependent, who was throughout the whole of the taxation period necessarily confined by reason of illness, injury or affliction to a bed or wheel chair and including also the salary or wages paid to one full time attendant upon the taxpayer, his spouse or any such dependent who was totally blind throughout the whole of such taxation period and required the services of such an attendant: provided, however, that the deduction shall not exceed the sum of

(i) four hundred dollars in the case of a single person,

(ii) six hundred dollars in the case of a married person or person given an equivalent status in respect of rates of tax under this Act (provided that a husband and wife shall be entitled to only one such deduction of six hundred dollars between them),

plus

(iii) one hundred dollars for each dependent in respect of whom he may make a deduction from his normal tax under Rule five of section one of paragraph A of the First Schedule to this Act but not exceeding four hundred dollars in respect of such dependents:

Provided further than payment of the said medical expenses is proven by receipts filed with the Minister.”

(7) Subsection one of the said section five is further amended by adding the following paragraphs thereto:

“(p) losses sustained in the process of earning income during the year last preceding the taxation year by a person carrying on the same business in both of such years, if in the calculation of such losses, no account is taken of any outlay, loss or replacement of capital or any payment on account of capital or any depreciation, depletion or obsolescence, or of any disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income, except such amount for depreciation as the Minister may allow.”

“(q) subsistence allowances of commissioned officers of the Canadian naval, military and air forces, except to the extent that such subsistence allowances in any case exceed one dollar and seventy cents a day.”

6. Subsections two, three, four, five and six of section five of the said Act are repealed.

7. (1) Paragraph (*g*) of subsection one of section six of the said Act is repealed and the following substituted therefor:—

“(*g*) any amount paid pursuant to a decree, order or judgment made by a competent tribunal in any action or proceeding for divorce or judicial separation or pursuant to a separation agreement as alimony or other allowance for the maintenance of the recipient thereof and the children of the marriage, if any.”

(2) Paragraph (*m*) of subsection one of section six of the said Act is repealed and the following substituted therefor:—

“(*m*) the salary, bonus, director’s fee or other remuneration in excess of fourteen thousand dollars paid by a company incorporated in Canada to a non-resident, unless such non-resident pays tax thereon under subsection one of section nine of this Act.”

8. (1) Section seven of the said Act, as amended by section twelve of chapter eighteen of the statutes of 1940–41, is repealed.

(2) The said Act is further amended by adding the following section immediately before section eight thereof as section seven A:—

“7A. (1) Any person except those to whom subsection three of this section applies, may deduct from the aggregate of the taxes otherwise payable by him in any year under subsections one and three of section nine of this Act the aggregate of

(a) payments into any superannuation, retirement or pension fund or plan approved by the Minister which are paid by the taxpayer as a term of his employment or in connection with membership in a trade union;

(b) premiums on

(i) life insurance policies on the lives of the taxpayer, his spouse and his dependents; and

(ii) annuities on the lives of the taxpayer, his spouse and his dependents or other instalment savings contracts, of a type which in the opinion of the Minister are such that the premiums cannot be postponed without substantial loss to or forfeiture by the taxpayer;

if such policies, annuities or other contracts were in force prior to the twenty-third day of June, one thousand nine hundred and forty-two;

(c) one-half of the first year’s premiums and the whole of subsequent years’ premiums on life insurance policies on the life of the taxpayer which were not in force prior to the twenty-third day of June, one thousand nine hundred and forty-two, and which are on the term plan or which are of a type that provide for premiums to be payable throughout the lifetime of the insured or until the insured attains at least the age of sixty-five and for a period of not less than thirty years; provided that the deduction by the taxpayer in any year in respect of premiums on such policies shall not exceed \$100;

(d) principal payments on a mortgage or agreement of sale on or with respect to one residential property of the taxpayer, provided that such mortgage or agreement of sale was registered or in effect prior to the twenty-third day of June, one thousand

nine hundred and forty-two or if not so registered, was to the satisfaction of the Minister in effect as an enforceable obligation of the taxpayer prior to the said date;

if such aggregate is not greater than an amount equal to one-half of the taxes otherwise payable by him under subsections one and three of the said section nine less the deduction provided by section eight of this Act or the aggregate of

(i) an amount equal to eight per centum of his taxable income during the taxation year or eight hundred dollars, whichever is less, in the case of a person subject to tax under Rule three of section one of Paragraph A of the First Schedule to this Act, or, an amount equal to ten per centum of his taxable income during such year or one thousand dollars whichever is less in the case of a person subject to tax under Rule one of section one of Paragraph A of the First Schedule to this Act, and

(ii) an amount equal to one per centum of his taxable income during the taxation year or one hundred dollars whichever is less for each dependent in respect of whom he may make a deduction from his normal tax under Rule five of section one of paragraph A of the First Schedule to this Act

whichever is less.

(2) If in any case, the aggregate of the payments described in paragraphs (a), (b), (c) and (d) of subsection one of this section, is greater than either an amount equal to one-half of the taxes otherwise payable by the taxpayer under subsections one and three of section nine of this Act or the aggregate of the amounts set out in paragraphs (i) and (ii) at the end of the said subsection one of this section, then the taxpayer may deduct from the aggregate of the taxes otherwise payable by him in any year under subsections one and three of section nine of this Act either an amount equal to one-half the taxes otherwise payable by him under subsections one and three of section nine of this Act, or the aggregate of the amounts set out in subparagraphs (i) and (ii) at the end of the said subsection one of this section, whichever is less.

(3) A person over sixty-five years of age may, if his income in the taxation year was less than five thousand dollars, deduct from the aggregate of the taxes otherwise payable by him in any year under subsections one and three of section nine of this Act, less the deductions provided by section eight of this Act, either one-half of such taxes or the aggregate of

(a) an amount equal to eight per centum of his taxable income during the taxation year or eight hundred dollars whichever is less in the case of a person subject to tax under Rule three of section one of Paragraph A of the First Schedule to this Act, or, an amount equal to ten per centum of his taxable income during such year or one thousand dollars whichever is less in the case of a person subject to tax under Rule one of section one of Paragraph A of the First Schedule to this Act, and

(b) an amount equal to one per centum of his taxable income or one hundred dollars whichever is less for each dependent in respect of whom he may make a deduction from his normal tax

under Rule five of section one of paragraph A of the First Schedule to this Act,

whichever is less.

(4) The expression "premiums" in this section means in the case of industrial or fraternal insurance the amount of the gross premiums for one year, and in all other cases means the gross premiums for one year less dividends paid, policy loans obtained exclusive of interest and cash values paid within the taxation year."

9. Paragraph (a) of subsection one of section eight of the said Act is repealed and the following substituted therefor:

"(a) The amount paid to Great Britain or to any of its self-governing dominions or dependencies for income tax in respect of the income of the taxpayer derived from sources therein; and"

10. Subsection two of section eight, as enacted by section fourteen of chapter eighteen of the statutes of 1940-41, and subsection three of the said section eight are repealed and the following substituted therefor:—

"(2) Such deduction shall not exceed the same proportion of the tax otherwise payable under this Act or the sum total of the income tax and excess profits tax otherwise payable under this Act and the *Excess Profits Tax Act, 1940*, as provided for in the proviso to subsection one of this section, as that which the taxpayer's net profits from sources within such country and taxed therein bears to his entire net profits from all sources without taking into account the deduction provided by Rule one of section two of paragraph A of the First Schedule to this Act.

"(3) Any such deduction shall be allowed only if the taxpayer furnishes evidence satisfactory to the Minister showing the amount of tax paid and the particulars of income derived from sources within Great Britain or any of its self-governing dominions or dependencies or any foreign country."

10A. Section eight of the said Act is further amended by adding thereto the following sub-section:—

"(5) A taxpayer shall be entitled to deduct from the sum total of the Income Tax payable by him under this Act and the Excess Profits tax payable under *The Excess Profits Tax Act, 1940*, forty per centum of the following:

(a) Contributions to associations, syndicates or mining partnerships registered or otherwise recognized under the laws of any province of Canada and organized for the purpose of prospecting in Canada for base metals or strategic minerals, not exceeding in the case of any one association, syndicate or mining partnership five hundred dollars, and not exceeding five thousand dollars in respect of the aggregate of the contributions made to all such associations, syndicates or mining partnerships; and

(b) An amount not exceeding five thousand dollars actually expended by any mining or exploration company in prospecting for base metals or strategic minerals in Canada by means of its own prospectors;

Provided, that no such deductions shall be allowed unless the association, syndicate or mining partnership or mining or exploration company files certified statements of expenditures and satisfies the

Minister that it has been actively engaged in prospecting for base metals or strategic minerals by means of qualified persons during a substantial part of the year one thousand nine hundred and forty-two and that in the case of an association, syndicate or mining partnership it has carried out the purpose for which it was formed."

11. The said Act is further amended by inserting the following section after section eight thereof:

"8A. Any person who is required by a decree, order or judgment made by a competent tribunal in any action or proceeding for divorce or judicial separation or pursuant to a separation agreement to make and does make any payment as alimony or other allowance for the maintenance of the recipient thereof and the children of the marriage if any, may, if he is living apart from the spouse or former spouse to whom he is required to make such payments, deduct from the taxes otherwise payable by him under subsections one and three of section nine of this Act, the amount of the tax which such spouse or former spouse would pay upon the aggregate of such payments in the taxation year if such payments were the only income of such spouse or former spouse and such spouse or former spouse were an unmarried person resident in Canada with no dependents except the children, if any, for whose maintenance such payments were, in part, made."

12. Subsection one of section nine of the said Act, as amended by section six of chapter fourteen of the statutes of 1932-33 and subsection two of the said section nine, as enacted by section eight of chapter forty-one of the statutes of 1932-33, are repealed and the following subsections substituted therefor:—

"9. (1) There shall be assessed, levied and paid upon the income during the preceding year of every person, other than a corporation or joint stock company,

(a) residing or ordinarily resident in Canada at any time in such year; or

(b) who sojourns in Canada in such year for a period or periods amounting to one hundred and eighty-three days; or

(c) who is employed in Canada at any time in such year; or

(d) who, not being resident in Canada, is carrying on business in Canada at any time in such year; or

(e) who, not being resident in Canada, derives income for services rendered in Canada at any time in such year, otherwise than in the course of regular or continuous employment, for any person resident or carrying on business in Canada; or

(f) who, before his appointment was a resident of Canada and is now or hereafter becomes a Minister, High Commissioner, officer, servant or employee of the government of Canada, or an agent general for any of the provinces of Canada, or any officer, servant or employee thereof, resident outside of Canada, except upon income received by way of salary from the said government;

a tax computed in accordance with the rules set forth in paragraph A of the First Schedule to this Act and the rate set forth in paragraph AA of the said First Schedule.

(2) Save as herein otherwise provided, corporations and joint stock companies resident or carrying on business in Canada, no matter how created or organized, shall pay a tax upon income at the rate applicable thereto set forth in the First Schedule to this Act."

13. (1) Subsection two of section nine B of the said Act, as enacted by section nine of chapter forty-one of the statutes of 1932-33 and as amended by section five of chapter fifty-five of the statutes of 1934, by section nine of chapter forty of the statutes of 1935, by sections seven and eight of chapter thirty-eight of the statutes of 1936, by section ten of chapter forty-six of the statutes of 1939 (First Session), and by section sixteen of chapter eighteen of the statutes of 1940-41, is further amended by adding the following paragraph at the end thereof:—

“(f) salaries, wages, premiums, annuities, compensation, remunerations, emoluments, rents and other fixed or determinable annual or periodical gains, profits and income received from sources within Canada by any such non-resident person, who is not engaged in trade or business within Canada, has not an office or place of business therein, and has not performed personal services within Canada at any time in the year, provided that such non-resident is a resident of a country which imposes a tax of a similar nature in respect of similar kinds of income derived from sources within such country and payable to non-residents of such country.

The tax payable by virtue of this paragraph shall be deducted by the Canadian debtor from the amount paid or credited to such non-resident at the time of payment or crediting and shall be remitted to the Receiver General of Canada.”

(2) Subsections three, four and nine, as enacted by section seventeen of chapter eighteen of the statutes of 1940-41, and subsections five, seven and eight, as enacted by section nine of chapter forty-one of the statutes of 1932-33, of the said section nine B, are repealed and the following substituted therefor:—

“(3) In the case of bearer coupons or warrants, whether representing interest or dividends, the taxes imposed by this section shall be collected by the encashing agent or debtor who shall, in the case of the tax imposed by subsection one of this section, withhold five per centum of the interest or dividends in respect of which such tax is imposed, and, in the case of the tax imposed by subsection two of this section, withhold fifteen per centum of the interest or dividends in respect of which such tax is imposed, and remit the same to the Receiver General of Canada;

Provided that any encashing agent so withholding and remitting shall be entitled to recover one hundred per centum of such interest or dividends represented by such bearer coupon or warrant from the debtor.

(4) In the case of interest or dividends in respect of fully registered shares, bonds, debentures, mortgages or any other obligations, the taxes imposed by this section shall be collected by the debtor who shall, in the case of the tax imposed by subsection one of this section, withhold five per centum of the interest or dividends in respect of which such tax is imposed, and, in the case of the tax imposed by subsection two of this section withhold fifteen per centum of the interest or dividends in respect of which such tax is imposed and remit the same to the Receiver General of Canada.

(5) No exemptions, deductions or tax credits provided by any other section of this Act shall apply in the case of the taxes imposed by this

section except those exemptions provided by paragraphs (a), (b), (c) and (k) of section four of this Act."

"(7) For the purposes of this section the Minister shall have full power to determine the persons who are deemed to be residents of Canada, and in the case of a person who is resident abroad as well as in Canada, what income is taxable under the provisions of paragraphs (a), (b), (c), (d), (e) and (f) of subsection two of this section.

(8) Whenever an agent of a non-resident person receives payment of any money in respect of which a tax is imposed under this section and from which the tax has not been withheld, such agent shall withhold the tax from his principal and remit the same to the Receiver General of Canada.

(9) Every agreement for payment to a non-resident person of any money in respect of which a tax is imposed upon such non-resident person by this section, without deducting or withholding such tax, is void."

14. Notwithstanding anything contained in subsection two of section thirteen of this Act, section nine B of the *Income War Tax Act* shall have effect as if the said subsection two had not been enacted in respect of interest on bonds or other obligations of or guaranteed by His Majesty in right of any province and in respect of interest on bonds or other obligations, provision for the payment of which interest is made by His Majesty in right of any province pursuant to a statute.

15. (1) Subsection two of section eleven of the said Act as enacted by section seven of chapter fifty-five of the statutes of 1934 and amended by section ten of chapter thirty-eight of the statutes of 1936, is repealed and the following is substituted therefor:

"(2) Income accumulating in trust for the benefit of unascertained persons, or of persons with contingent interests shall be taxable in the hands of the trustee or other like person acting in a fiduciary capacity, as if such income were the income of a person other than a corporation; provided that he shall not be entitled to the deductions for which provision is made in Rule five of section one and Rules one, three, four and five of section two of paragraph A of the First Schedule to this Act; Provided, further, that should more than one such trust be created, substantially all the assets of which are received from one person (whether or not administered by the same or different trustees) and be so conditioned as to fall in ultimately in favour of one beneficiary, class or group of beneficiaries, then the income of the several trusts shall be taxed as one trust in the hands of such one of the trustees as the Minister may determine."

(2) Paragraph (c) of subsection four of section eleven of the said Act, as enacted by section nineteen of chapter eighteen of the statutes of 1940-41, is repealed and the following is substituted therefor:

"(c) income taxable under the provisions of this subsection shall be taxed as if such income were the income of a person other than a corporation, provided that no deduction may be made under Rule five of section one and Rules one, three, four and five of section two of paragraph A of the First Schedule to this Act."

16. Section thirteen of the said Act, as enacted by section ten of chapter forty-one of the statutes of 1932-33, is amended by adding thereto the following subsection:—

“(2) Where the Minister is of opinion that taxation for any period has been or may be reduced as a result of any transaction entered into after the thirty-first day of December, one thousand nine hundred and forty-one, he shall have the power to determine in the notification sent by registered letter as provided for in subsection one of this section that the amount of such accumulation which he considers excessive shall be deemed to be distributed on the date of the said notification and the shareholders shall be deemed to have received such amount of profits as a dividend on the date of such notification and shall be taxable accordingly.”

17. Subsection two of section nineteen of the said Act, as enacted by section eleven of chapter thirty-eight of the statutes of 1936, is repealed and the following substituted therefor:—

“(2) Where, pursuant to subsection one of this section a dividend is deemed to be paid to a company incorporated or carrying on business in Canada, such company shall, notwithstanding section four of this Act, be taxable on the amount thereof; and where, pursuant to subsection one of this section a dividend is deemed to be paid to a company incorporated outside of Canada which does not carry on business in Canada, the company making the payment, unless it is one of the companies described in paragraph (p) of section two or paragraph (k) of section four of this Act, shall deduct from such payment the amount of income tax payable thereon under subsection two of section nine of this Act at the rate applicable thereto at the time when such payment is deemed to be made and shall pay the same to the Receiver General of Canada.”

18. Section twenty-five A of the said Act, as enacted by section six of chapter twenty-four of the statutes of 1930, is amended by adding thereto the following subsection:—

“(2) Any tax deducted under the provisions of subsection two of section nine B of this Act from any dividends or interest which are made taxable under subsection one of this section shall be applied as a credit against the tax subsequently found due by any non-resident person whose income is liable to taxation under the provisions of subsection one of this section.”

19. (1) Subsections three and four of section twenty-seven of the said Act, as enacted by section twenty-two of chapter thirty-four of the statutes of 1940, are repealed and the following substituted therefor:—

“(3) The amount so deducted shall be remitted to the Receiver General of Canada at the same time as the payment is made to or placed to the credit of the non-resident person, and shall be accompanied by a statement in the form prescribed by the Minister.

(4) Whenever an agent of a non-resident person receives payments on account of anything mentioned in this section, from which the deduction herein mentioned has not been made, such agent shall make such deduction before he pays over or places such sum to the credit of his principal and shall remit the amount thereof to the Receiver General of Canada.”

(2) The said section twenty-seven, as enacted by section twenty-two of chapter thirty-four of the statutes of 1940 and amended by

sections twenty-two and twenty-three of chapter eighteen of the statutes of 1940-41, is further amended by adding the following thereto as subsection eight thereof:—

“(8) Subsection seven of this section shall only be applicable to persons resident in a country which grants a similar privilege to residents of Canada liable to pay a tax in such country upon rentals from real estate therein.”

20. Section thirty-three of the said Act, as amended by section twenty-four of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

“33. (1) Every person liable to taxation under this Act shall,

(a) on or before the thirtieth day of September in each year if his salary or wages are equal to or greater than three-quarters of his income, and

(b) on or before the thirtieth day of April in each year in the case of all other persons;

without notice or demand, deliver to the Minister a return in such form as the Minister may prescribe, of his total income during the last preceding year.

(2) Any person, whether liable to tax under this Act or not, shall at any time upon receipt of a notice or demand in writing from the Commissioner of Income Tax or any officer authorized to make such demand, deliver to the Minister a return, in such form as the Minister may prescribe, of his total income during the last preceding year.”

21. Section thirty-four of the said Act is amended by adding the following subsection thereto:—

“(2) In case a partner or proprietor dies after the close of the fiscal period but before the end of the calendar year, a separate return of the income of the deceased partner or proprietor from the business after the close of such fiscal period up to the date of death shall be made and income tax shall be assessed, levied and paid upon such income as if the same were the income of another person.”

22. (1) Subsection one of section thirty-nine of the said Act is repealed and the following substituted therefor:—

“39. (1) Every employer shall make a return on such form as the Minister may prescribe on or before the fifteenth day of October in each year showing

(a) every person in his employ who received any salary or other remuneration in the preceding calendar year and the amount of such salary or other remuneration;

(b) the amount of the tax deducted pursuant to section ninety-two of this Act from the salary and wages of each person in his employ in the twelve month period ending the thirty-first day of August in the year in which such return is required to be made; and

(c) in the case of the return to be filed on or before the fifteenth day of October, nineteen hundred and forty-three, the amount of National Defence tax deducted under section ninety-one of this Act in the months of January to August, inclusive, of the year nineteen hundred and forty-two.”

(2) Subsection four of the said section thirty-nine, as enacted by section seven of chapter fourteen of the statutes of 1932-33, is repealed and the following substituted therefor:—

“(4) The returns required by subsections two, two A and three of this section shall be delivered to the Minister on or before the last day of February in each year without any notice or demand being made therefor and in such form as the Minister may prescribe.”

23. Section forty-eight of the said Act, as enacted by section fifteen of chapter thirty-eight of the statutes of 1936 and amended by section twenty-six of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

“48. (1) Every person liable to pay any tax under any of the provisions of this Act, except sections nine B, twenty-seven and eighty-eight thereof, shall estimate the amount of such tax payable by him in the return of the income upon which such tax is payable.

(2) Any person from whose salary or wages any amount has been deducted under section ninety-two of this Act shall, if the aggregate of his salary or wages during the taxation year is equal to or greater than three-quarters of his income for such year, pay to the Receiver General of Canada at the time when he is required under section thirty-three of this Act to make the return of his income for such taxation year, the amount by which the tax on his income during such year, as estimated under subsection one of this section, exceeds the aggregate of

(i) all amounts deducted from his salary or wages under subsection two of section ninety-two of this Act during the twelve months period commencing the first day of September in the taxation year;

(ii) all amounts deducted under subsection one of section ninety-two of this Act during the taxation year from interest or dividends forming part of his income; and

(iii) in respect of the tax payable on income for the year nineteen hundred and forty-two only, all amounts deducted from his income as National Defence Tax under the provisions of section ninety-one of this Act in the months of January to August, nineteen hundred and forty-two, both inclusive,

and if any person fails to pay any amount which he is required to pay by this subsection, or any part thereof, as thereby required, he shall pay interest thereon at the rate of five per centum per annum from the day on or before which such payment was required to be made to the day of payment.

(3) Every person, other than a corporation or a person to whom subsection two of this section applies, shall pay all taxes which he is liable to pay upon his income during any taxation year under any of the provisions of this Act, except sections nine B, twenty-seven and eighty-eight thereof, by quarterly instalments during the twelve month period commencing the first day of September in the taxation year, as follows:—

(a) on or before the fifteenth day of October and on or before the fifteenth day of January in such period, an amount equal to one-quarter of such tax as estimated by him on his income for the year last preceding the taxation year or on his estimated

income for the taxation year, at the rates for the taxation year; and

(b) on or before the fifteenth day of April and on or before the fifteenth day of July in such period, one-half of the amount by which the tax payable as estimated by him on his income for the taxation year at the rates for the taxation year exceeds the aggregate of

(i) all amounts paid under paragraph (a) of this subsection, and

(ii) all amounts deducted during the taxation year from earnings, interest or dividends, forming part of his income under section ninety-one and subsection one of section ninety-two of this Act, and

(iii) all amounts deducted from his salary or wages under subsection two of section ninety-two of this Act during the twelve month period commencing the first day of September in the taxation year;

and if, after examination of any person's return under section fifty-three of this Act, it is established for the purposes of this Act that the instalments paid by him under this subsection amount, in the aggregate, to less than the tax payable, he shall forthwith after notice of assessment is sent to him under section fifty-four of this Act, pay the unpaid amount thereof together with interest thereon at five per centum per annum from the thirtieth day of April in the period during which such instalments were payable until the date of payment.

(4) Every corporation shall pay all taxes which it is liable to pay in any taxation year under any of the provisions of this Act, except sections nine B, twenty-seven and eighty-eight thereof, by instalments payable on or before the last day of each month during the twelve month period ending six months after the close of such taxation year, as follows:

(a) during the first eight months in such period, an amount equal to one-twelfth of such tax as estimated by it on its income for the year last preceding the taxation year or on its estimated income for the taxation year at the rate for the taxation year;

(b) during the last four months in such period, one-fourth of the amount by which the tax payable as estimated by it on its income for the taxation year at the rate for the taxation year, exceeds the aggregate of

(i) the amounts paid under paragraph (a) of this subsection, and

(ii) the amounts deducted during the taxation year under subsection one of section ninety-two of this Act from interest or dividends forming part of its income,

and if, after examination of any corporation's return under section fifty-three of this Act, it is established for the purposes of this Act that the instalments paid by such corporation in any year under this section amount, in the aggregate, to less than the tax payable, it shall forthwith after notice of assessment is sent to it under section fifty-four of this Act, pay the unpaid amount thereof together with interest thereon at five per centum per annum from the day four months after the end of the taxation year until the date of payment.

(5) If any person who is required to pay on the quarterly instalment basis as provided in subsection three of this section pays less than the amount which he is required to pay on any such date as provided in the said subsection, he shall pay interest at eight per centum per annum upon the amount by which his payment on such instalment date is less than the amount required to be paid on such date from the date when such instalment became due to the date of payment.

(6) If any corporation pays less than one-twelfth of the tax as estimated by it on its income for the year last preceding the taxation year, or on its estimated income for the taxation year at the rates for the taxation year during each of the first eight months of the twelve month period ending six months after the close of such taxation year, or if it pays less than the amount required as provided in paragraph (b) of subsection four of this section during the last four months in such twelve month period ending six months after the close of such taxation year, it shall pay interest at the rate of eight per centum per annum upon the deficiency in any instalment from the date when such instalment was due to the date of payment; provided, however, that the interest in respect of the first two months' instalments in such twelve month period ending six months after the close of the taxation year one thousand nine hundred and forty-two shall be at the rate of three per centum per annum during such twelve-months' period (and thereafter at the eight per centum per annum rate) upon any deficiency in any instalment due in the said two months."

24. Section forty-nine of the said Act, as enacted by section fifteen of chapter thirty-eight of the statutes of 1936, is repealed and the following substituted therefor:—

"49. If any person fails to pay any amount which he is required to pay by subsection two of section forty-eight of this Act, or any part thereof, as thereby required, he shall pay, in addition to the interest therein provided for, interest on the amount which he so fails to pay at the rate of three per centum per annum from the day on or before which such payment was required to be made to the day of payment."

25. Subsection two of section fifty-four of the said Act is repealed and the following substituted therefor:—

"(2) Except as otherwise provided in this Act, any additional tax found due over the estimated amount shall be paid within one month from the date of the mailing of the notice of assessment."

26. Subsection two of section eighty of the said Act as enacted by section one of chapter thirty of the statutes of 1928 is repealed and the following substituted therefor:—

"(2) Any information or complaint with respect to any offence referred to in subsection one of this section, whenever the prosecution, suit or proceeding is instituted under the provisions of the *Criminal Code* relating to summary convictions, may be laid or made within three years from the time when the matter of the information or complaint arose."

27. Section eight-four of the said Act, as enacted by section sixteen of chapter forty-one of the statutes of 1932-33, is amended by adding thereto the following subsection:—

"(3) Where any sum of money is owing by virtue of the provisions of this section, the Minister shall make a written demand by registered letter to the person owing such moneys for the amount thereof and such demand shall constitute a notice of assessment for the purposes

of this Act and sections fifty-five to seventy-four, both inclusive, of this Act shall apply *mutatis mutandis*."

28. The Schedule of rates at the end of subsection one of section eighty-eight of the said Act, as enacted by section twenty-seven of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:

"On gifts up to and including \$5,000-----	10%
On gifts exceeding	
\$5,000 but not exceeding \$10,000-----	11%
\$10,000 but not exceeding \$20,000-----	12%
\$20,000 but not exceeding \$30,000-----	13%
\$30,000 but not exceeding \$40,000-----	14%
\$40,000 but not exceeding \$50,000-----	15%
\$50,000 but not exceeding \$75,000-----	16%
\$75,000 but not exceeding \$100,000-----	17%
\$100,000 but not exceeding \$150,000-----	18%
\$150,000 but not exceeding \$200,000-----	19%
\$200,000 but not exceeding \$250,000-----	20%
\$250,000 but not exceeding \$300,000-----	21%
\$300,000 but not exceeding \$400,000-----	22%
\$400,000 but not exceeding \$500,000-----	23%
\$500,000 but not exceeding \$600,000-----	24%
\$600,000 but not exceeding \$700,000-----	25%
\$700,000 but not exceeding \$800,000-----	26%
\$800,000 but not exceeding \$1,000,000-----	27%
\$1,000,000-----	28%

29. Subsection three of section eighty-eight of the said Act, as enacted by section twenty-eight of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

"(3) The tax shall be paid in full to the Receiver General of Canada on or before the thirtieth day of April next succeeding the year in which the gifts were made; and if not so paid the tax shall bear interest at the rate of eight per centum per annum from the date payable."

30. Section ninety-one of the said Act, as enacted by section twenty-six of chapter thirty-four of the statutes of 1940 and amended by section thirty-one of chapter eighteen of the statutes of 1940-41, shall be repealed on and after the first day of September, one thousand nine hundred and forty-two and any moneys deducted during the year one thousand nine hundred and forty-two from earnings, interest or dividends forming part of any person's income pursuant to the provisions thereof, and remitted to the Receiver General of Canada, shall be deemed to have been paid on account of the taxes imposed and levied under section nine of this Act upon the income of such person for the year one thousand nine hundred and forty-two.

31. The said Act is further amended by adding thereto the following parts:

"PART XVI

TAX DEDUCTION AT THE SOURCE

92. (1) Every person becoming liable, on or after the first day of September, one thousand nine hundred and forty-two, to pay to any person described by paragraphs (a), (b), (c), (d), and (e) of subsection one of section nine of this Act, either forthwith or on demand,

- (i) any amount as interest pursuant to the provisions of a fully registered bond, debenture or other similar obligation, or
- (ii) any amount by way of dividend in respect of any share of stock,

shall deduct or withhold therefrom an amount equal to seven per centum of such amount or sum and shall, one week from the day when the liability to make such payment arises, or from the day when the creditor's right to demand payment thereof arises, or at such other time as the Minister may by regulation prescribe remit the same to the Receiver General of Canada on behalf of the creditor to whom such interest or dividend is payable as a payment on account of taxes payable by such person under section nine of this Act.

(2) Every employer who, after the first day of September, one thousand nine hundred and forty-two, pays any salary or wages to any person in his employ who is resident or employed in Canada with respect to any established pay-roll period commencing after the thirty-first day of August, one thousand nine hundred and forty-two shall deduct or withhold from such salary or wages such amount in respect of the taxes payable under section nine of this Act by such person, as may be prescribed by regulations made by the Governor in Council and published in the *Canada Gazette*, and shall remit the same to the Receiver General of Canada as a payment on account of such taxes within one week of the day when he becomes liable to pay such salary or wages or at such other time as the Minister may by regulation prescribe.

(3) Every person liable to deduct or withhold any amount under subsections one or two of this section shall from time to time make a return at such time and in such form, and containing such information, as the Minister may prescribe.

(4) Every person whose employer is required to deduct or withhold any amount from his salary or wages under subsection two of this section shall, prior to the first day of September, nineteen hundred and forty-two or as may be prescribed by regulations hereunder, or, if his employment commences after that date, immediately thereafter furnish to his employer such information as the Minister may require on a form prescribed by the Minister.

(5) Every employee failing to file with his employer the form prescribed in subsection four of this section shall be liable to have the deduction from his salary or wages provided for in subsection two of this section made at the rate authorized as hereinbefore provided in respect of an unmarried person without dependents in receipt of a salary within the range in which such employee is paid and without regard to the tax credit to which he would otherwise have been entitled in respect of persons dependent upon him for support.

(6) Any person who, pursuant to subsections one or two of this section, deducts or withholds any amount from any payment which he is liable to make to any person shall be deemed to hold the amount so deducted or withheld in trust for His Majesty.

(7) All amounts deducted or withheld by any person under subsections one and two of this section shall be kept separate and apart from the moneys of the person so deducting and in the event of any liquidation, assignment or bankruptcy of the person who made such deductions the said amounts so deducted shall remain apart and form

no part of the estate of such person in liquidation, assignment or bankruptcy. In any event the moneys so deducted shall be paid over to His Majesty in full in priority to the claims of any secured or unsecured creditors including any claims of His Majesty in right of any province of Canada.

(8) If the Minister is of the opinion that any person on whose behalf money has been paid to the Receiver General of Canada under this section was not liable to pay any tax under this Act, or if the Minister is of opinion that the moneys paid to the Receiver General of Canada under this section on behalf of such person are in excess of the tax which such person was liable to pay under this Act, the Minister may, upon application by such person in writing within twelve months from the close of the calendar year in which such money was paid, repay to him the amount so paid or such part thereof as in his opinion such person was not liable to pay.

(9) Any person who fails to comply with any of the requirements of this section shall be guilty of an offence and liable on summary conviction to a penalty not exceeding ten thousand dollars or to six months' imprisonment, or to both such fine and such imprisonment.

(10) No action shall lie against any person for withholding or deducting any sum of money in compliance or intended compliance with this section or any regulation made thereunder.

(11) In this section, unless the context otherwise requires,

(a) "salary or wages" includes any remuneration, compensation, hire, emolument, stipend, perquisite or any similar payment or any indemnity, pension or director's fee, howsoever paid for any services, functions or duties rendered or performed in Canada; and

(b) "employer" means any person liable to pay any salary or wages and includes His Majesty in right of Canada and any province of Canada.

(12) Interest or dividends payable to the following persons shall not be liable to the deduction at the source provided in subsection one of this section:—

(a) persons and institutions mentioned in paragraphs (a) to (i), both inclusive, and in paragraphs (p) and (q) of section four of this Act,

(b) municipalities or municipal or public bodies which in the opinion of the Minister perform a function of government,

(c) His Majesty in right of Canada or any province of Canada.

(13) Dividends payable to corporations shall not be liable to the deduction at the source provided in subsection one of this section.

PART XVII

REFUNDABLE PORTION OF TAX

93. (1) The Minister shall, in respect of any taxes paid, as herein provided, refund to each taxpayer the amount by which either one-half of the taxes which he was liable to pay upon his income for any taxation year after one thousand nine hundred and forty-one less the deductions provided by section eight and before any amount was

deducted therefrom under section seven A of this Act or the aggregate of

(a) an amount equal to eight per centum of his taxable income during the taxation year or eight hundred dollars whichever is less in the case of a person subject to tax under Rule three of section one of Paragraph A of the First Schedule to this Act, or, an amount equal to ten per centum of his taxable income during such year or one thousand dollars whichever is less, in the case of a person subject to tax under Rule one of section one of Paragraph A of the First Schedule to this Act; and

(b) an amount equal to one per centum of his taxable income during the taxation year, or one hundred dollars whichever is less for each dependent in respect of whom he may make a deduction from his normal tax under Rule five of section one of paragraph A of the First Schedule to this Act,

whichever is less, exceeds the aggregate of the amounts which such taxpayer is entitled to deduct under section seven A of this Act from the taxes otherwise payable by him upon his income during the taxation year under subsections one and three of section nine of this Act.

(2) The amounts refundable under subsection one of this section shall be paid to the taxpayer after the cessation of hostilities between Canada and Germany, Italy and Japan, at such times and in such instalments as may be prescribed by regulation made by the Governor in Council, but in the case of taxes paid upon income for nineteen hundred and forty-two taxation period not later than the end of the second fiscal period of the Government of Canada commencing after a date to be fixed for the purposes of this Act and of *The Excess Profits Tax Act, 1940*, by the Governor in Council as the date of the cessation of hostilities between Canada and Germany, Italy and Japan, and in the case of taxes paid upon income for each subsequent year not later than one year subsequent to the date fixed for the repayment of taxes paid upon income for the next succeeding year; provided, however, that in the event of the death of the taxpayer, payment may be made to his legal representative at a date earlier than the date hereinbefore specified.

(3) The Minister shall pay, together with any payment made pursuant to subsection one of this section, interest on the amount thereof at the rate of two per centum per annum from the first day of October next after the end of the year in respect of which the refundable portion of the tax on the income of the year is levied."

32. Subsection one of section eighteen of the French version of the said Act is amended by striking out in the sixth and seventh lines thereof the words "la corporation a en caisse des recettes non distribuées" and substituting therefor "la compagnie a en sa possession un revenu non distribué".

33. (1) Sections one, two, four, six, seven, nine, ten, eleven, twelve, fifteen, seventeen, eighteen, nineteen and twenty-one and subsections one and two of section three of this Act and subsection two of section three of the *Income War Tax Act* as enacted in subsection three of section three of this Act, and subsections one, three and six of section five of this Act, and paragraph (g) of subsection one of section five of the *Income War Tax Act* as enacted in subsection seven of section

five of this Act and subsection two of section eight and subsection two of section thirteen of this Act shall be applicable to income of the 1942 taxation period and fiscal periods ending therein and of all subsequent periods.

(2) Subsections two and four of section five and subsection one of section eight of this Act shall be applicable to income of the 1941 taxation period and of fiscal periods ending therein and of all subsequent periods.

(3) Subsection three of section three of the *Income War Tax Act* as enacted by subsection three of section three of this Act shall be deemed to have come into force on and after the first day of July, 1942, and shall be applicable to the profits of the taxation year 1942 and of fiscal periods ending therein subsequent to June thirtieth and of subsequent years and fiscal periods; provided, however, that if any fiscal period ends between June thirtieth one thousand nine hundred and forty-two and July first one thousand nine hundred and forty-three, the provisions of the said section shall apply to only that portion of the profits which the number of days of such fiscal period since June thirtieth one thousand nine hundred and forty-two bears to the total number of days in such fiscal period.

(4) Subsection one of section thirteen and section twenty-eight shall be deemed to have come into force on the twenty-fourth day of June, 1942, and shall be applicable to all payments on or after the said date.

(5) Section ten A shall apply only in respect of contributions or expenditures made during the calendar year 1942 and in respect of taxes payable upon income of the taxation year 1942 or fiscal periods ending in 1942 or 1943.

(6) Paragraph (p) of subsection one of section five of the *Income War Tax Act*, as enacted in subsection seven of section five of this Act, shall be applicable to the taxation year 1943 and fiscal periods ending therein.

(7) Sections twenty and twenty-two of this Act shall come into force on the first day of January, 1943, and shall be applicable to the income of 1942 and of fiscal periods ending therein.

(8) Subsections four and six of section forty-eight of the *Income War Tax Act*, as enacted by section twenty-three of this Act shall apply in respect of fiscal periods ending on and after the thirty-first day of December, 1942.

EXHIBIT 4

1942 AMENDMENTS TO EXCESS PROFITS TAX

ACT OF 1940

1. (1) Paragraph (f) of subsection one of section two of *The Excess Profits Tax Act, 1940*, chapter thirty-two of the statutes of 1940, as enacted by section one of chapter fifteen of the statutes of 1940-41, is amended by striking out the words "this Act" in the ninth line thereof and substituting therefor the words "the said tax".

(2) Paragraph (i) of subsection one of section two of the said act, as enacted by section three of chapter fifteen of the statutes of 1940-41, is repealed and the the following substituted therefor:—

“(i) ‘standard profits’ means the average yearly profits of a taxpayer in the standard period in carrying on what was in the opinion of the Minister the same class of business as the business of the taxpayer in the year of taxation or the standard profits ascertained in accordance with section five of this Act:

Provided that standard profits shall not include for the purposes of this Act property in any form received by a taxpayer deemed to be the payment of a dividend under section nineteen of the *Income War Tax Act*; and

Provided further that for the purpose of this section profits shall be deemed to have accrued on an equal daily basis throughout any fiscal period or portion thereof which is in question; and

Provided further that losses incurred by the taxpayer during the standard period shall not be deducted from the profits in the standard period but the years of losses shall nevertheless be counted in determining the average yearly profits during the said standard period; and

Provided further that a taxpayer’s standard profits shall not be deemed to be less than five thousand dollars before any adjustment is made in accordance with the provisions of this Act.”

2. Section three of the said Act is repealed and the following substituted therefor:—

“3. (1) In addition to any other tax or duty payable under any other Act and as herein provided, there shall be assessed, levied and paid

(a) a tax in accordance with the rate set out in the Third Part of the Second Schedule to this Act, upon the profits during the taxation period; and

(b) a tax in accordance with the rates set out in the First Part of the Second Schedule or in the Second Part of the Second Schedule to this Act upon the profits or the excess profits respectively during the taxation period, whichever of such taxes is the greater in amount,

of every person residing or ordinarily resident in Canada or who is carrying on business in Canada:

Provided that in the case of all persons other than corporations the tax as provided in the Third Part of the Second Schedule to this Act shall not apply.

(2) The tax exigible under this section in accordance with the rates set out in the First Part of the Second Schedule to this Act shall in no case operate to reduce the profits of a taxpayer below the amount of five thousand dollars before providing for any payments to proprietors, partners or shareholders by way of salary, interest or otherwise.”

3. Section five of the said Act, as enacted by section six of chapter fifteen of the statutes of 1940-41, is repealed and the following sections substituted therefor:—

"5. (1) If a taxpayer is convinced that his standard profits were so low that it would not be just to determine his liability to tax under this Act by reference thereto because the business is either of a class which during the standard period was depressed or was for some reason peculiar to itself abnormally depressed during the standard period when compared with other businesses of the same class he may, subject as hereinafter provided, compute his standard profits at such greater amount as he thinks just, but not exceeding an amount equal to interest at ten per centum per annum on the amount of capital employed in the business at the commencement of the last year or fiscal period of the taxpayer in the standard period computed in accordance with the First Schedule to this Act:

Provided that if the Minister is not satisfied that the business of the taxpayer was depressed or that the standard profits as computed by the taxpayer are fair and reasonable, he may direct that the standard profits be ascertained by the Board of Referees and the Board shall thereupon, in its sole discretion, ascertain the standard profits at such an amount as the Board thinks just, being, however, an amount equal to the average yearly profits of the taxpayer during the standard period or to interest at the rate of not less than five nor more than ten per centum per annum on the amount of capital employed at the commencement of the last year or fiscal period of the taxpayer in the standard period as computed by the Board in its sole discretion in accordance with the First Schedule to this Act, *or the Minister shall assess the taxpayer in accordance with the provisions of this Act other than as provided in this subsection.*

(2) If on the application of a taxpayer the Minister is satisfied that the taxpayer was not carrying on business during the standard period or that the profits of the standard period were so low that it would not be just to determine the liability of the taxpayer under this Act by reference thereto because the actual date of commencement of business by the taxpayer or the date of commencement fixed by the Minister pursuant to paragraph (h) of subsection one of section two of this Act was subsequent to the thirty-first day of December, one thousand nine hundred and thirty-seven *but before the first day of January, one thousand nine hundred and thirty-nine*, he shall direct that the standard profits be ascertained by the Board, *or (whether or not there has been an application by the taxpayer) in the case of any taxpayer who has not commenced business before the second day of January, one thousand nine hundred and thirty-nine, the Minister shall direct that the standard profits be ascertained by the Board* and the Board in any such case shall in its sole discretion thereupon ascertain the standard profits at such an amount as the Board thinks just, being an amount equal to a return on the capital employed by the taxpayer at the commencement of the first year or fiscal period in respect of which he is subject to taxation under this Act at the rate earned by taxpayers during the standard period in similar circumstances engaged in the same or an analogous class of business, the capital of the taxpayer to be computed by the Board of Referees in its sole discretion in accordance with the First Schedule to this Act.

(3) *If on the application of a taxpayer the Minister is satisfied that the business either was depressed during the standard period or was not in operation prior to the first day of January, one thousand nine*

hundred and thirty-eight, and the Minister on the advice of the Board of Referees is satisfied that because,

(a) the business is of such a nature that capital is not an important factor in the earning of profits, or

(b) the capital has become abnormally impaired or due to other extraordinary circumstances is abnormally low

standard profits ascertained by reference to capital employed would result in the imposition of excessive taxation amounting to unjustifiable hardship or extreme discrimination or would jeopardize the continuation of the business of the taxpayer, the Minister shall direct that the standard profits be ascertained by the Board of Referees and the Board shall in its sole discretion thereupon ascertain the standard profits on such basis as the Board thinks just having regard to the standard profits of taxpayers in similar circumstances engaged in the same or an analogous class of business.

(4) Notwithstanding anything contained in this section the decisions of the Board given under subsections one, two and three of this section shall not be operative until approved by the Minister whereupon the said decisions shall be final and conclusive:

Provided that if a decision is not approved by the Minister it shall be submitted to the Treasury Board who shall thereupon determine the standard profits and the decision of the Treasury Board shall be final and conclusive.

"5A. In the case of taxpayers engaged in the operation of gold mines or oil wells which have come into production after January first, one thousand nine hundred and thirty-eight, the amount of standard profits shall be ascertained on the basis of a presumed volume of production during the standard period equal to the volume of production of the taxpayer in the taxation year and a presumed selling price for the product during the standard period equal to the average selling price of the said product during the standard period."

4. Paragraph (a) of subsection one of section six of the said Act is repealed and the following substituted therefor:

"(a) such proportion of the income tax payable under the *Income War Tax Act* (or payable under the said Act prior to the application of sections eight, eighty-nine or ninety thereof) and such proportion of the tax payable under the *Third Part of the Second Schedule to this Act*, for the same taxation period as the excess profits taxable under the *Second Part of the Second Schedule to this Act* bears to the total profits of the taxpayer;"

5. Paragraph (a) of subsection two of section six of the said Act is repealed and the following substituted therefor:—

"(a) the amounts allowed as deductions in paragraphs (a), (b) and (j) of subsection one of section five of the *Income War Tax Act*, and such amount for depreciation as the Minister in his discretion may allow under paragraph (n) of subsection one of section six of the said Act;"

6. Subsection two of section six of the said Act, as amended by sections seven and eight of chapter fifteen of the statutes of 1940-41, is further amended by adding thereto the following paragraph:—

"(d) losses of the taxpayer in the immediately preceding year, as ascertained under the *Income War Tax Act*."

7. Paragraph (b), paragraph (c) as enacted by section nine of chapter fifteen of the statutes of 1940-41, and paragraph (d) of section seven of the said Act are repealed and the following substituted therefor:—

“(b) the profits of a profession carried on by an individual or by individuals in partnership if the profits of the profession are dependent wholly or mainly upon his or their personal qualifications and if in the opinion of the Minister little or no capital is employed: Provided that this exemption shall not extend to the profits of a commission agent or person *any part of* whose business consists in the making of contracts on behalf of others or the giving to other persons of advice of a commercial nature in connection with the making of contracts unless the Minister is satisfied that such agent is virtually in the position of an employee of one employer in which case this exemption shall apply *and in any case the decision of the Minister shall be final and conclusive*;

“(c) the profits of taxpayers *other than corporations or joint stock companies*, if such profits do not in the taxation period exceed five thousand dollars before providing for any payment therefrom to proprietors or partners by way of salary, interest or otherwise;

“(d) the profits of a corporation or joint stock company which is in the taxation *period* a personal corporation within the meaning of paragraph (i) of section two of the *Income War Tar Act*.”

8. Section seven of the said Act, as amended by sections nine and ten of chapter fifteen of the statutes of 1940-41, is further amended by adding thereto the following paragraph:—

“(g) The profits of any corporation or joint stock company derived from the operation of any base metal or strategic-mineral mine which comes into production in the three calendar years commencing the first day of January, one thousand nine hundred and forty-three, but this exemption shall extend only to the income of the first three fiscal periods of twelve months each commencing on or after the date of such mine coming into production. The Minister, having regard to the production of ore in reasonable commercial quantities, shall determine which mines, whether new or old, qualify under this paragraph. The Minister shall issue a certificate stating the date upon which any mine is deemed to have come into production and establish such fiscal periods of twelve months each, during which the income derived from any such mine shall be exempt hereunder. The Minister may make any regulations deemed necessary for carrying this paragraph (g) into effect.”

9. The said Act is further amended by adding the following section immediately after section seven thereof:—

“7A. The following profits shall not be liable to taxation under section three of this Act in accordance with the rates set out in the First and Second Parts of the Second Schedule to this Act:—

The profits of a corporation or joint stock company which, in the taxation year, do not exceed the sum of five thousand dollars, or, where the taxation year of any corporation or joint stock company is less than twelve months, do not exceed the proportion of five thousand dollars which the number of days in the taxation year of such corporation or joint stock company, bears to three hundred and

sixty-five days, before providing for any payments to shareholders by way of salary, interest, dividends or otherwise."

10. The said Act is further amended by adding thereto the following section immediately after section seventeen:—

"18. (1) There shall be refunded to the taxpayer an amount equal to twenty per centum of the profits above the point at which the tax calculated under the First Part of the Second Schedule is equal to the tax calculated under the Second Part of the Second Schedule if such profits have been paid by way of taxes under the *Income War Tax Act* and this Act to the Receiver General of Canada.

(2) The refundable portion shall be repaid to the taxpayer or to his legal representative after the cessation of hostilities between Canada and Germany, Italy and Japan, as follows:—

(a) as to any refundable portion referable to the profits of fiscal periods ending in the year one thousand nine hundred and forty-two, during the second fiscal period of the Government of Canada commencing after cessation of the said hostilities;

(b) as to any refundable portion referable to the profits of fiscal periods ending in the year one thousand nine hundred and forty-three, during the third fiscal period of the Government of Canada commencing after cessation of the said hostilities; and so on for successive fiscal periods;

or notwithstanding the provisions of paragraphs (a) and (b) hereof, at such earlier times and in such instalments as the Governor in Council may determine.

(3) The date of cessation of hostilities shall be that date proclaimed by the Governor in Council that a state of war no longer exists, or such other date as he may determine for the purposes of refunds hereunder."

11. The Second Schedule to this Act, as amended by section seventeen of chapter fifteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

"SECOND SCHEDULE

FIRST PART—

Ten per centum of the profits of corporations and joint stock companies and fifteen per centum of the profits of all persons other than corporations, before deduction therefrom of any tax paid thereon under the *Income War Tax Act*.

SECOND PART—

One hundred per centum of the excess profits.

THIRD PART—

Twelve per centum of profits of corporations and joint stock companies, before deduction therefrom of any tax paid thereon under the *Income War Tax Act*."

12. (1) Sections one, three, five and paragraphs (b) and (d) of section seven of this Act shall be deemed to have come into force on and after the date of the commencement of *The Excess Profits Tax Act, 1940*

(2) Sections two and four, paragraph (c) of section seven, sections nine, ten, and eleven of this Act shall be deemed to have come into force on and after the first day of July, one thousand nine hundred and forty-two and shall be applicable to the profits of the taxation

year one thousand nine hundred and forty-two and of fiscal periods ending therein subsequent to June thirtieth, and of subsequent years and fiscal periods, provided however that if any fiscal period ends between June thirtieth one thousand nine hundred and forty-two and July first one thousand nine hundred and forty-three, the provisions of the said sections shall apply to only that portion of the profits which the number of days of such fiscal period since June thirtieth one thousand nine hundred and forty-two bears to the total number of days in such fiscal period, and the provisions of the said Act prior to the enactment of the said sections shall apply to that portion of the profits of the said fiscal period which the number of days of such fiscal period occurring before July first one thousand nine hundred and forty-two bears to the total number of days of such fiscal period.

(3) Section six of this Act shall come into force on and after the first day of January, one thousand nine hundred and forty-three, and shall apply to the year one thousand nine hundred and forty-three and fiscal periods ending therein.

EXHIBIT 5

1942 AMENDMENTS TO SPECIAL WAR REVENUE ACT, PERTAINING TO
EXCISE TAXES, ETC.

1. (1) Paragraph (a) of section two of the *Special War Revenue Act*, chapter one hundred and seventy-nine of the Revised Statutes of Canada, 1927, as enacted by section one of chapter twenty-seven of the statutes of 1940-41, is repealed and the following substituted therefor:—

“(a) “Minister” means

(i) in or in relation to Parts I and III the Minister of Finance; and

(ii) in or in relation to Parts II and IV to XVII, inclusive, the Minister of National Revenue;”

(2) The said section is further amended by adding thereto as paragraph (d) the following:—

“(d) “stamp” or “excise stamp” means a stamp prepared for the purposes of this Act pursuant to a direction of the Minister under section one hundred of this Act.”

2. (1) The heading of Part III of the said Act is repealed and the following substituted therefor:—

“INSURANCE PREMIUMS OTHER THAN MARINE.”

(2) Paragraph (b) of section thirteen of the said Act, as enacted by section one of chapter fifty-four of the statutes of 1932 and amended by section two of chapter fifty of the statutes of 1932-33, is repealed and the following substituted therefor:—

“(b) “Company” includes any corporation or any society or association, incorporated or unincorporated, or any partnership, or any exchange, or any underwriter, carrying on the business of

insurance, other than a fraternal benefit society, a corporation transacting *marine* insurance, or a purely mutual corporation in respect of any year in which the net premium income in Canada of such mutual corporation is to the extent of not less than fifty per centum thereof derived from the insurance of farm property or wholly derived from the insurance of churches, schools or other religious, educational or charitable institutions;”

3. Paragraph (e) of the said section thirteen is repealed and the following substituted therefor:—

“(e) “foreign company” means any corporation incorporated under the laws of any foreign country, for the purpose of carrying on the business of insurance, and includes any association of persons formed in any such country upon the plan known as Lloyds whereby each associate underwriter becomes liable for a stated, limited or proportionate part of the whole amount insured by a policy and any exchange *formed in any such country;*”

4. Paragraph (f) of the said section thirteen is repealed and the following substituted therefor:—

“(f) “net premiums” means, in the case of a company transacting life insurance, the gross premiums received by the company other than the consideration received for annuities, less premiums returned and less the cash value of dividends paid or credited to policyholders; and, in the case of any other company, the gross premiums received or receivable by the company or paid or payable by the insured less the rebates and return premiums paid on the cancellation of policies: Provided that in the case of a mutual company which carries on business on the premium deposit plan and in the case of an exchange “net premiums” means the actual net cost of the insurance to the insured during the taxation period together with interest on the excess of the premium deposit over such net cost at the average rate earned by the company on its funds during the said period:”

5. Section fourteen of the said Act, as enacted by section one of chapter fifty-four of the statutes of 1932, is repealed and the following substituted therefor:—

“14. (1) Every company authorized under the laws of the Dominion of Canada or of any province thereof, to transact the business of insurance, other than *an association of persons formed on the plan known as Lloyds*, a mutual company *not* carrying on the business of life insurance, and an exchange, shall pay to the Minister a tax of *two* per centum upon the net premiums received by it in Canada less net premiums paid for reinsurance to companies or associations to which this section applies, during the year 1941 and each calendar year thereafter.

(2) *Every association of persons formed on the plan known as Lloyds*, and every mutual company *not* carrying on the business of life insurance and *not* carrying on business on the premium deposit plan, authorized under the laws of the Dominion of Canada or of any province thereof, to transact the business of insurance, shall pay to the Minister a tax of *three* per centum upon the net premiums received by it in Canada, less net premiums paid for reinsurance to companies or associations, to which this section applies, during the year 1941 and each calendar year thereafter.

(3) Every mutual company authorized under the laws of the Dominion of Canada or of any province thereof, to transact the business of insurance and which carries on business on the premium deposit plan and every exchange so authorized shall pay to the Minister a tax of *four* per centum upon the net premiums received by it in Canada during the calendar year 1941 and each calendar year thereafter.

(4) Premiums received in respect of *life insurance policies from policyholders resident in Canada*, and premiums received in respect of other policies, insuring persons resident, or property situate, in Canada at the time such insurance was effected or renewed, whether or not payment is made in Canada, shall be deemed to be premiums received in Canada for the purpose of this section.

6. Section fifteen of the said Act, as enacted by section one of chapter fifty-four of the statutes of 1932, is repealed and the following substituted therefor:—

“15. Every company, being a corporation, underwriter or association transacting marine insurance, which transacts in Canada, in addition to its business of marine insurance, a class of insurance other than marine insurance, shall be subject to the provisions of this Part in respect of such other business as fully as if it were not authorized to transact the business of marine insurance.”

7. Section seventeen of the said Act, as enacted by section one of chapter fifty-four of the statutes of 1932, is repealed and the following substituted therefor:—

“17. (1) Every *life insurance company* to which subsection one of section fourteen applies shall, on or before the *first day of September, 1942, and on or before the first day of March in each year thereafter*, make a return to the Superintendent on a form to be furnished by him showing the gross premiums, other than the consideration received for annuities, received by it, the premiums returned, the dividends paid or credited to policyholders, and reinsurance premiums paid by it to companies to which the said section fourteen applies, *during the twelve months ending on the last day of December* preceding the date on which such return is filed.

(2) Every company or association to which subsection one or subsection two of section fourteen applies, other than a life insurance company shall, on or before the first day of September, 1942, and on or before the first day of March in each year thereafter, make a return to the Superintendent on a form to be furnished by him showing the gross premiums received by it, the rebates, return premiums on cancellation of policies and reinsurance premiums paid by it to companies or associations to which the said subsections apply, during the twelve months ending on the last day of December preceding the date on which such return is filed.

(3) Every company to which subsection *three* of section fourteen applies shall, on or before the first day of *September, 1942*, and on or before the first day of March in each year thereafter, make a return to the Superintendent on a form to be furnished by him showing the amount of all insurance on property effected or renewed by such company in Canada and the net premiums in respect of such insurance received by the company in each case during *the twelve months ending on the last day of December* preceding the date on which such return is filed.

(4) Such return shall, in the case of a Canadian company, be signed by the president, vice-president, managing director or secretary; in the case of a company other than a Canadian company, by the chief agent of the company in Canada, or in the case of a company not having a chief agent in Canada, in such manner as the Minister may prescribe.

(5) Every such company shall at the time of making such return remit to the Superintendent the amount of the tax payable under the provisions of this Part in respect of the net premiums received by it during the period covered by the return."

8. Section twenty-two of the said Act as enacted by section one of chapter fifty-four of the statutes of 1932, is repealed.

9. Section twenty-five of the said Act, as enacted by section three of chapter fifty-four of the statutes of 1932, and amended by section five of chapter twenty-seven of the statutes of 1940-41, is repealed and the following substituted therefor:—

"25. (1) Every telegraph operator shall pay to the Minister, on the first day of February, May, August and November in each year, the sum of *seven* cents in respect of each despatch transmitted by such telegraph operator during the three months ending respectively on the last day of December, March, June and September preceding.

(2) Every telephone operator shall pay to the Minister, on the first day of February, May, August and November in each year, a sum equal to *fifteen* per cent. of the charge made by such telephone operator to the person paying or liable to pay the same in respect of every long distance telephone call costing more than fifteen cents made during the three months ending respectively on the last day of December, March, June and September preceding: Provided that upon long distance telephone calls made from any public pay station, whether operated by means of automatic slot machines or otherwise, there shall be paid in lieu of the tax otherwise imposed by this subsection, the sum of five cents for each such call for which a charge of more than *fifteen* cents and not more than *forty-five* cents is made, and five cents for each additional charge of *thirty-five* cents or any fraction of *thirty-five* cents: Provided further that the tax imposed by this sub-section shall in no case be greater than *seventy-five* cents on any one call.

(3) Every telephone operator shall pay to the Minister, on the first day of February, May, August and November in each year, the sum of twenty-five cents in respect of each telephone extension of such operator for each month or part thereof during which such telephone extension was in any dwelling house, apartment or other domestic establishment during the three months period ending respectively on the last day of December, March, June and September preceding the said days.

(4) It shall be lawful for the operator to add to the regular charge for every such *telephone extension*, despatch or call the amount of the tax imposed by this section and to collect the same from the person paying or liable to pay for the *telephone extension*, transmission of the despatch or call. This subsection shall apply to the Crown as well in the right of the Dominion as in the right of any province.

(5) No tax shall be imposed in respect of any *telephone extension*, despatch or telephone call for which no charge is made by the operator."

(10) Subsection one of section twenty-six of the said Act, as enacted by section three of chapter fifty-four of the statutes of 1932, is repealed and the following substituted therefor:—

“26. (1) Every *such telegraph and telephone* operator shall make quarterly to the Commissioner of Excise or officer of the Department of National Revenue authorized by the Commissioner to receive the same, a return in accordance with a form approved by the Commissioner, setting forth the number of *telephone extensions*, despatches or long distance telephone calls taxable under this Part, and the amount payable in respect thereof.”

11. Section twenty-seven of the said Act, as enacted by section three of chapter fifty-four of the statutes of 1932, is repealed and the following substituted therefor:—

“27. Every *such telegraph and telephone* operator shall make and keep a record of all taxable *telephone extensions*, despatches or long distance telephone calls in books prepared in such form as will enable an audit to be made thereof to the satisfaction of the Minister.”

12. Subsection one of section twenty-nine of the said Act, as enacted by section three of chapter fifty-four of the statutes of 1932, is repealed and the following substituted therefor:—

“29. (1) Every *such telephone and telegraph* operator who *fails to make or keep any record which he is required to make and keep by section twenty-seven of this Act is guilty of* an offence and liable upon summary conviction to a penalty not exceeding one thousand dollars.”

13. Subsections one, two and three of section thirty-two of the said Act, as enacted by section six of chapter twenty-seven of the statutes of 1940-41, are repealed and the following substituted therefor:—

“32. (1) Every purchaser of a ticket or right entitling the purchaser to transportation by railway, bus or aircraft to any place in or outside of Canada or by vessel between places in Canada or from a place in Canada and return thereto, shall, in addition to the regular charge for the ticket or right, pay to the person selling such ticket or right, for the Consolidated Revenue Fund in addition to the price paid therefor, a sum equal to *fifteen* per cent. of the said price: Provided that the tax imposed by this section shall not apply on the charge for a ticket or right of transportation, if the regular one way charge for such ticket or right to any place in or outside of Canada is *seventy-five* cents or less: Provided further that the said tax shall not apply to members of *any* naval, military or air forces, when proceeding on leave in uniform.

(2) Every purchaser of a seat in a pullman or parlour car shall, in addition to the price paid for such seat, pay to the person selling such seat, for the Consolidated Revenue Fund, *fifteen* cents.

(3) Every purchaser of a berth in a sleeping car or of other sleeping accommodation on a railway train shall pay to the person selling the berth or other sleeping accommodation, for the Consolidated Revenue Fund in addition to the price paid therefor, a sum equal to *fifteen* per cent. of the said price, provided that in no case shall the tax imposed by this subsection be less than *thirty-five* cents.”

14. Paragraph (c) of subsection six of section thirty-four of the said Act, as enacted by section six of chapter twenty-seven of the statutes of 1940-41, is amended by substituting the word “five” for the word “four” in the last line thereof.

15. Subsection one of section seventy-seven A. of the said Act, as enacted by section two of chapter forty-one of the statutes of 1940, is repealed and the following substituted therefor:—

“77A. (1) Except as hereinafter provided, every manufacturer and every importer of cigarette papers in packets shall affix to every packet of cigarette papers manufactured by him or imported into Canada, an excise stamp or stamps to the value of *six* cents for each one hundred leaves or fraction of one hundred leaves contained in such packet.”

16. Subsection two of section seventy-seven A. of the said Act, as enacted by section seven of chapter twenty-seven of the statutes of 1940-41, is repealed and the following substituted therefor:—

“(2) Except as hereinafter provided, every manufacturer and every importer of cigarette paper tubes shall affix to every package of cigarette paper tubes manufactured by him or imported by him into Canada, an excise stamp or stamps to the value of *twelve* cents for each one hundred cigarette paper tubes or fraction of one hundred cigarette paper tubes contained in each such package.”

17. Subsection seven of section seventy-seven A. of the said Act, as enacted by section three of chapter forty-two of the statutes of 1934, is repealed.

18. The said Act is amended by adding immediately after section seventy-nine thereof the following section as section seventy-nine A.:—

“79A. (1) All cigarettes or manufactured tobacco, whether imported or manufactured in Canada, shall, before they are offered for sale or are removed from the custody of the proper customs officer for sale or consumption, be put up and prepared in such packages as may be prescribed by regulations made under this Act, unless they are imported in such packages.

(2) Except as hereinafter provided, every manufacturer and every importer of cigarettes shall, before any cigarettes manufactured or imported by him are offered for sale or are removed from the custody of the proper customs officer for sale or consumption, affix to each package thereof an excise stamp or stamps to the value of one cent for each five cigarettes or fraction of five cigarettes contained in such package.

(3) Except as hereinafter provided, every manufacturer and every importer of manufactured tobacco shall, before any manufactured tobacco, manufactured or imported by him, is offered for sale or is removed from the custody of the proper customs officer for sale or consumption, affix to each package thereof an excise stamp or stamps to the value of one cent for each ounce or fraction of an ounce of tobacco contained in such package.

(4) The stamps required to be affixed pursuant to subsections two and three of this section shall be affixed by the manufacturer or importer to the satisfaction of the Commissioner of Excise in such manner as is required by regulations made under this Act.

(5) It shall not be necessary to affix any stamp under subsections two and three of this section to packages of cigarettes or manufactured tobacco manufactured in Canada for export out of Canada if such cigarettes or manufactured tobacco are manufactured and exported in accordance with regulations made under this Act.

(6) For the purpose of this section, “manufactured tobacco” means every article, except cigarettes or cigars, made by a tobacco

manufacturer from raw leaf tobacco by any process whatsoever, and includes snuff."

19. (1) Subsection three of section eighty of the said Act, as enacted by section eight of chapter twenty-seven of the statutes of 1940-41, is amended by striking out the proviso thereto and substituting therefor the following:—

"Provided, however, that the foregoing exemption shall not extend to the goods mentioned in section two of Schedule II to this Act when used in the manufacturing of the goods mentioned in sections two, nine, ten and eleven of Schedule I to this Act."

(2) Subsection four of the said section eighty as enacted by section seven of chapter forty-one of the statutes of 1940, is amended by striking out the words "Schedule I" in the first line thereof and substituting therefor the words "Schedules I and II."

20. Subsection six of section eighty of the said Act, as enacted by section fourteen of chapter fifty of the statutes of 1932-33, and amended by section five of chapter forty-two of the statutes of 1934, is repealed and the following substituted therefor:—

"(6) The tax by this section imposed upon sugar, syrup, and substitutes therefor, glucose and grape sugar, imported into Canada shall be levied and collected upon the importation of any specified commodity which contains any of these materials in accordance with regulations to be prescribed by the Minister, and the said tax shall be graduated according to the quantity of any such materials contained in any such commodity, and shall be paid by the importer at the time of importation, at the same rate as imposed on similar goods of domestic production."

21. Section eighty of the said Act is further amended by adding thereto the following subsection:—

"(9) The excise tax to be imposed, levied and collected under subsection one of this section in respect of goods mentioned in section nine of Schedule I to this Act shall include a tax of one cent per bottle in addition to the amount for which provision is made therein."

22. The said Act is further amended by adding thereto immediately after section eighty thereof the following as section eighty A:—

"80A. (1) There shall be imposed, levied and collected, an excise tax equal to twenty-five per cent. of the current market value of all dressed furs, dyed furs and dressed and dyed furs,—

(i) imported into Canada, payable by the importer or transferee of such goods before they are removed from the custody of the proper customs officer, or

(ii) dressed, dyed, or dressed and dyed in Canada, payable by the dresser or dyer at the time of delivery by him.

(2) Every person liable for taxes under this section shall, in addition to the returns required by subsection one of section one hundred and six of this Act, file each day a true return of the total taxable value and the amount of tax due by him on his deliveries of dressed furs, dyed furs, and dressed and dyed furs for the last preceding business day, under such regulations as may be prescribed by the Minister.

(3) The said return shall be filed and the tax paid not later than the first business day following that on which the deliveries were made.

(4) The Minister may make regulations for the purpose of determining what constitutes the current market value of furs, and the tax

shall be computed upon the value so determined. Such regulations shall be binding upon the owner of the furs as well as upon the dresser or dyer."

23. Subsection one of section eighty-two of the said Act as enacted by section nine of chapter twenty-seven of the statutes of 1940-41, is repealed and the following substituted therefor:—

"82. (1) There shall be imposed, levied and collected, an excise tax on playing cards for every fifty-four cards or fraction of fifty-four in each package, of *twenty cents per pack.*"

24. Subsection one of section eighty-three of the said Act, as enacted by section ten of chapter twenty-seven of the statutes of 1940-41, is repealed and the following substituted therefor:—

"83. (1) There shall be imposed, levied and collected the following excise taxes:—

(a) a tax of *fifty cents per gallon* on wines of all kinds, except sparkling wines, containing not more than forty per cent. of proof spirit;

(b) a tax of two dollars *and fifty cents per gallon* on champagne and all other sparkling wines."

25. Section eighty-three of the said Act is further amended by adding as subsection three thereof the following:—

"(3) In this section 'wine' shall include spirituous liquors the products of fruits, vegetables, roots, herbs, grain, molasses, sugar or other fermentable substances and obtained by the normal alcoholic fermentation of the juices or extracts therefrom and not by distillation."

26. Subsection four of section eighty-six of the said Act, as enacted by section ten of chapter forty-one of the statutes of 1940, is repealed.

27. Subsection one of section one hundred and six of the said Act, as enacted by section thirteen of chapter fifty-four of the statutes of 1932 and as amended by section nine of chapter forty-five of the statutes of 1936, is amended by striking out at the end thereof the following words:—

"The said return shall be verified by statutory declaration made by the person liable to pay the tax, his attorney or agent."

28. Subsection four of section one hundred and six of the said Act as enacted by section thirteen of chapter fifty-four of the statutes of 1932, is repealed and the following substituted therefor:—

"(4) The said return shall be filed and the tax paid not later than the last day of the first month succeeding that in which the sales were made, *or not later than any subsequent day specified by the Minister in writing.*"

29. Subsection one of section one hundred and seven of the said Act, as enacted by section four of chapter forty-three of the statutes of 1930, is repealed and the following substituted therefor:—

"107. (1) Trustees in bankruptcy, assignees, administrators, executors and other like persons, before distributing any assets under their control, shall obtain a certificate from the Minister certifying that no taxes or penalties for which provision is made by Part VII and XI to XV inclusive of this Act chargeable against *or payable by any such person or chargeable against or payable in respect of any such assets, remain unpaid.*"

30. Subsection three of section one hundred and eight of the said Act is repealed and the following substituted therefor:—

“(3) Every penalty imposed by this Act, when no other procedure for the recovery thereof is by this Act provided, may be sued for, prosecuted and recovered with costs by His Majesty’s Attorney-General of Canada, or in the case of penalties under Parts I or III, in the name of the Minister of Finance, and in the case of penalties under Part II and Parts IV to *XVII*, inclusive, in the name of the Minister of National Revenue.”

31. Subsection four of section one hundred and eight of the said Act, as enacted by section twenty-one of chapter fifty of the statutes of 1932–33, is repealed and the following substituted therefor:—

“(4) Any amount payable in respect of taxes, interest and penalties under Parts *XI to XV inclusive* remaining unpaid, whether in whole or in part after fifteen days from the date of sending by registered mail of a notice of arrears addressed to the taxpayer, may be certified by the Commissioner of Excise and on the production to the Exchequer Court of Canada or judge thereof or such officer as the Court or judge thereof may direct, the certificate shall be registered in the said Court and shall, from the date of such registration, be of the same force and effect, and all proceedings may be taken thereon, as if the certificate were a judgment obtained in the said Court for the recovery of a debt of the amount specified in the certificate, including penalties to date of payment as provided for in Parts *XI to XV inclusive* of this Act and entered upon the date of such registration, and all reasonable costs and charges attendant upon the registration of such certificate shall be recoverable in like manner as if they were part of such judgment.”

32. Subsection five of section one hundred and eight of the said Act is repealed and the following substituted therefor:—

“(5) In any case where judgment is obtained for any taxes payable under Parts *XI to XV inclusive* of this Act, the provisions in such Parts by which a penalty is imposed for non-payment of such taxes shall be applicable *mutatis mutandis* to non-payment of such judgment, and such penalty shall be recoverable in like manner as the judgment debt.”

33. Subsection two of section one hundred and eleven of the said Act, as enacted by section five of chapter fifty-two of the statutes of 1938, is repealed and the following substituted therefor:—

“(2) Every person who contravenes any requirements of Part *IV to XVII inclusive*, of this Act or any regulations of the Minister under the said Parts for which no other penalty is provided, shall be liable on summary conviction, to a penalty of not less than fifty dollars and not exceeding one thousand dollars.”

34. Section one hundred and twenty-one of the said Act as enacted by section thirteen of chapter twenty-seven of the statutes of 1940–41, is amended by adding at the end thereof as paragraph (*d*) the following:

“(d) “patron” shall mean any person attending or present at a place of amusement.”

35. The said Act is further amended by inserting immediately after section one hundred and twenty-two, as section one hundred and twenty-two A., the following:—

“122A. (1) Upon payment by any patron of the price of admission to a place of amusement, the person liable to pay the tax shall issue an admission ticket to such patron and shall cause the same to be collected before such patron is admitted to the place of amusement.

(2) The person collecting a ticket pursuant to subsection one of this section shall forthwith divide the same in two equal parts and shall deliver one part thereof to the patron from whom he collected it and shall place the other part in a receptacle of such design and in such a position as may be required by regulations made under this Act.

(3) A patron to whom a portion of a ticket is delivered under subsection two of this section upon being admitted to a place of amusement, shall keep the same in his possession until he leaves such place of amusement.”

36. The said Act is further amended by adding immediately after Part XV thereof as Parts XVI and XVII, the following:—

“PART XVI

TAX ON CERTAIN PLACES OF ENTERTAINMENT

“133. For the purposes of this Part, unless the context otherwise requires,

(a) “charge” means any entrance charge or fee, cover charge, charge for meals, services or merchandise or any other fee or amount collected from or charged to a patron, if at any time after his arrival at the place of entertainment any facilities for dancing or entertainment have been provided for the patrons.

(b) “patron” means any person attending or present at a place of entertainment;

(c) “operator” means every owner, manager or operator who operates any place of entertainment, every employee or agent of any such person, every person selling or supplying goods or services in, or in connection with, a place of entertainment and every employee or agent of any such person.

(d) “place of entertainment” means any place

(i) where liquor, beer or wine is sold or provided, if facilities for dancing are provided for the patrons, or

(ii) where liquor, beer or wine is sold or provided, if entertainment by one or more paid performers is provided for the patrons, or

(iii) where facilities for dancing and entertainment by one or more paid performers is provided for the patrons,

whether or not such place is enclosed or is in a building or other structure; but a place shall be deemed not to be a place of entertainment at any time when neither facilities for dancing nor entertainment as aforesaid by one or more paid performers are provided for the patrons.

“134. There shall be imposed, levied, and collected an excise tax equal to twenty per cent. of the amount of every charge made to a patron of any place of entertainment, which shall be paid by such patron to the operator.

"135. (1) Every operator shall furnish to each patron, before he leaves the place of entertainment, one or more bills or invoices for all charges, charged to or collected from him since his arrival at such place, and shall affix to each such bill or invoice, and cancel, an excise stamp or stamps to the amount of the tax for which provision is made by section one hundred and thirty-four of this Act in respect of the charges set out therein.

(2) Every patron shall retain all bills and invoices furnished to him under subsection one of this section until he leaves the place of entertainment.

"136. The Minister may, in his discretion, exempt any person from payment of the tax for which provision is made in section one hundred and thirty-four of this Act whenever any place of entertainment is, in his opinion, operated principally for a charitable purpose rather than for the operator's gain or profit.

"137. Every person who fails to present a bill or invoice or to affix or cancel an excise stamp or stamps as required by section one hundred and thirty-five of this Act is guilty of an offence and liable, on summary conviction, for the first offence, to a penalty of not less than twenty-five dollars and not exceeding two hundred dollars and in default of payment to imprisonment for a term of not less than three months and not more than twelve months, and for each subsequent offence to a penalty of not less than two hundred dollars and not exceeding five thousand dollars and in default of payment to imprisonment for a term of not less than six months and not exceeding two years.

"138. Every patron who fails to pay any tax for which provision is made under section one hundred and thirty-four of this Act upon being presented with a bill or invoice pursuant to section one hundred and thirty-five of this Act, is guilty of an offence and liable, on summary conviction, to a penalty of not less than twenty-five dollars and not more than two hundred dollars.

PART XVII

RETAIL PURCHASE TAX

"139. For the purposes of this Part, "tax paid value" of any article means the value of the article as it would be determined for the purpose of calculating an ad valorem duty upon importation of such article into Canada under the laws relating to the Customs and the Customs Tariff whether such article be in fact subject to ad valorem or other duty or not, and in addition the amount of all other duties and taxes thereon payable.

"140. (1) Whenever goods mentioned in Schedule VI of this Act are imported into Canada by the consumer or user, there shall be imposed, levied and collected, in addition to any other duty or tax that may be payable under this Act or any other statute or law, a retail purchase tax in respect of such goods at the rate set opposite to each item in the said Schedule computed on the tax paid value.

(2) Whenever goods mentioned in Schedule VI of this Act, having been manufactured or produced in Canada or imported into Canada, are delivered to the consumer or user, there shall be imposed, levied and collected, in addition to any other duty or tax that may be payable

under this Act or any other statute or law, a retail purchase tax in respect of such goods at the rate set opposite to each item in the said Schedule computed on the sale price.

"141. In any case where goods mentioned in the said Schedule VI are imported, the retail purchase tax for which provision is made in subsection one of section one hundred and forty of this Act shall be paid by the importer or transferee of such goods before they are removed from the custody of the proper customs officer, by affixing to the customs import entry an excise stamp or stamps to the amount of the said tax.

"142. (1) In any case where goods mentioned in the said Schedule VI, having been manufactured or produced in Canada or imported into Canada, are sold for consumption or use, the retail purchase tax for which provision is made in subsection two of section one hundred and forty of this Act shall be paid at the time of delivery of such goods pursuant to such sale.

(2) In any case where goods mentioned in the said Schedule VI, having been manufactured or produced in Canada or imported into Canada, are sold for consumption or use, the purchaser shall pay the amount of the tax imposed by subsection two of section one hundred and forty of this Act to the vendor of such goods.

(3) In any case where goods mentioned in the said Schedule VI, having been manufactured or produced in Canada or imported into Canada, are sold for consumption or use, the vendor shall, before delivering such goods, furnish to the purchaser a written invoice showing the date of the sale and the quantity and price of the goods sold, and shall affix to the said invoice, and cancel, an excise stamp or stamps to the amount of the tax imposed by subsection two of section one hundred and forty of this Act.

"143. Every person who fails to affix or to cancel an excise stamp or stamps as required by section one hundred and forty-two of this Act is guilty of an offence and liable on summary conviction to a penalty of not less than twenty-five dollars and not exceeding two thousand dollars, and to a further penalty equal to double the amount of the tax payable, and in default of payment, to imprisonment for a term of not less than three months and not more than twelve months."

37. Schedule I of the said Act as enacted by section fourteen of chapter twenty-seven of the statutes of 1940-41, is amended by repealing sections five, six, seven and eight thereof and substituting therefor the following:—

"5. Cameras, *photographic films and plates, projectors for slides, films or pictures, except those designed exclusively for industrial or professional photographers' use*—twenty-five per cent.

"6. Phonographs, record playing devices, radio broadcast receiving sets and tubes therefor—twenty-five per cent.

"7. (a) Electric or Gas Light Fixtures and Lamps and shades, globes and reflectors therefor—twenty-five per cent.;

(b) The following electrical or gas appliances adapted to household use:—stoves, ranges, and heaters; water heaters; refrigerators, including coils, condensing units, cabinets, boxes, evaporators and expansion valves therefor—twenty-five per cent.;

(c) The following electrical appliances adapted to household use:—food choppers and grinders; irons and ironers; washing machines;

vacuum cleaners and attachments therefor; garbage disposal units; floor waxers and polishers—twenty-five per cent.;

(d) The following electrical appliances:—grills; waffle irons; hot plates; roasters; kettles; chafing dishes; food or drink mixers; juice extractors; coffee makers; toasters of all kinds; portable humidifiers; curling irons or tongs; hair dryers; permanent waving machines and spacers or clamps, rods and heaters therefor; razors and shavers—twenty-five per cent.

“8. Coin, disc or token operated slot machines and vending machines; coin, disc or token operated games or amusement devices of all kinds—twenty-five per cent.

“9. Beverages consisting of unfermented fruit juices (*not including grape and other native fruit juices where at least ninety-five per cent of the products sold consist of pure juice of the fruit*) and imitations thereof, carbonated beverages or aerated waters and all other compounded or mixed soft drinks, put up in bottles for sale—twenty-five per cent.”

“10. Chocolate, candy and confectionery which may be classed as candy or a substitute for candy—thirty per cent.

Provided, however, that in respect of the goods mentioned in this section the tax shall be:

One cent on each article or unit selling regularly at a retail price of five cents;

Two cents on each article or unit selling regularly at a retail price of ten cents;

Three cents on each article or unit selling regularly at a retail price of fifteen cents;

and the Minister of National Revenue shall be the sole judge of the classification of the said goods, and the value, and the unit of the sale thereof for purposes of this tax.

11. Chewing gum—thirty per cent.”

38. The said Schedule I to the said Act is further amended by adding at the end thereof as sections twelve, thirteen and fourteen the following:

“12. Trunks; suitcases; bags and luggage of all kinds; purses; wallets; billfolds; key and card cases; handbags; jewel cases; dressing and toilet cases; shopping bags, except paper bags; golf and other sports bags; all the foregoing whether fitted or not—thirty-five per cent.;

Provided the tax hereby imposed shall not apply to the goods mentioned herein when manufactured expressly for a customer for his use in the operation of his business or profession.

“13. Ash trays; tobacco pipes, cigar and cigarette holders; cigarette rolling devices and other smokers' accessories, not to include lighters, matches or tobacco—thirty-five per cent.

“14. Fountain pens; propelling pencils, desk sets and all other desk accessories—thirty-five per cent.”

39. Schedule II of the said Act, as enacted by section six of chapter fifty-two of the statutes of 1938 and amended by section three of chapter eight of the statutes of 1939 (2nd session), by sections twenty-two, twenty-three and twenty-four of chapter forty-one of the statutes of 1940, and by section fifteen of chapter twenty-seven of the

statutes of 1940-41, is repealed and the following substituted therefor:—

“SCHEDULE II

“1. Cigars:—

(a) valued at more than forty dollars per thousand, per thousand—*one dollar and twenty-five cents*;

(b) valued at more than forty dollars per thousand and not more than one hundred and ten dollars per thousand, per thousand—*seven dollars and fifty cents*;

(c) valued at more than one hundred and ten dollars per thousand and not more than one hundred and fifty dollars per thousand, per thousand—*seventeen dollars and fifty cents*;

(d) valued at more than one hundred and fifty dollars per thousand and not more than two hundred dollars per thousand, per thousand—*twenty-five dollars*;

(e) valued at more than two hundred dollars per thousand, per thousand—*forty dollars*;

Provided that the value on imported cigars shall be the duty paid value as defined in section seventy-nine of this Act; the value of cigars manufactured in Canada shall include the amount of excise duty payable thereon.

“2. Sugar, etc.:—

(a) Materials enumerated in Customs Tariff Items 134, 135, 135a, 135b—*one and one-half cents per pound*;

(b) Materials enumerated in Customs Tariff Items 139 (except glucose and grape sugar) 140 (except molasses)—*two cents per pound*;

(c) Glucose and grape sugar (except when for use exclusively in the manufacture of leather and artificial silk)—*one cent per pound*;

“3. Tires and tubes:—

(a) Tires in whole or in part of rubber for automotive vehicles of all kinds, including trailers or other wheeled attachments used in connection with any of the said vehicles—*five cents per pound*;

(b) Inner tubes for use in any such tires—*five cents per pound*;

Provided the tax hereby imposed shall not apply to the goods mentioned herein when used exclusively for the original equipment of such automotive vehicles.

“4. Carbonic acid gas and similar preparations to be used for aerating non-alcoholic beverages—*fifty cents per pound*.

“5. Gasoline—*three cents per Imperial gallon*.”

40. Schedule III of the said Act as enacted by section seven of chapter fifty-two of the statutes of 1938 and amended by section four of chapter fifty-two of the statutes of 1939 (1st session), by section four of chapter eight of the statutes of 1939 (2nd session), by section twenty-five of chapter forty-one of the statutes of 1940 and by sections eighteen and nineteen of chapter twenty-seven of the statutes of 1940-41, is further amended by striking out under the heading of “Marine and Fisheries” in the sixth, seventh and eighth lines immediately following such heading, the words:

“Manila fibre for use only in the manufacture of rope not exceeding one and one-half inches in circumference for the fisheries”

and substituting therefor the following:—

“*Materials* for use only in the manufacture of rope not exceeding one and one-half inches in circumference for fisheries.”

41. The said Act is further amended by adding the following Schedule thereto as Schedule VI:—

“SCHEDULE VI.

1. Trunks; suitcases; bags and luggage of all kinds; purses; hand-bags; jewel cases; brief and catalogue cases; dressing and toilet cases; shopping bags, except paper bags; golf and other sports bags; all the foregoing whether fitted or not—twenty-five per cent.;

2. Clocks and watches adapted to household or personal use—twenty-five per cent.;

3. Articles commonly or commercially known as jewellery, whether real or imitation, including diamonds and other precious or semi-precious stones for personal use or for adornment of the person; goldsmiths' and silversmiths' products including all gold, silver, chromium or other plated ware and pewter ware—twenty-five per cent.;

4. Articles of all kinds made in whole or in part of ivory, jet, amber, coral, mother of pearl, natural shells, tortoise shell, jade, onyx, lapis lazuli, or other semi-precious stones—twenty-five per cent.;

5. Articles of cut glassware, crystal glassware, cut or not, etched glassware, metal decorated glassware or marble—twenty-five per cent.;

6. Articles of china, porcelain, earthenware, stoneware or other pottery ware, except articles for use in the preparation or serving of food or drink—twenty-five per cent.;

7. Ash trays; tobacco pipes; cigar and cigarette holders; cigarette rolling devices and other smokers' accessories, not to include lighters, matches or tobacco—twenty-five per cent.;

8. Fountain pens; propelling pencils; desk sets and all other desk accessories—twenty-five per cent.

Provided the tax hereby imposed shall not apply to goods of which the total cost of the consumer or user is not in excess of one dollar in the case of any goods mentioned in paragraphs 1, 2, 4, 7 and 8 hereof, or not in excess of fifty cents in the case of any goods mentioned in paragraphs 3, 5 and 6 hereof.”

42. Section one, sections nine to twelve inclusive, sections fourteen to thirty-five inclusive and sections thirty-nine to forty-one inclusive of this Act shall be deemed to have come into force on the twenty-fourth day of June, one thousand nine hundred and forty-two, and to have applied on all goods imported or taken out of warehouse for consumption on and after that day and to have applied to goods previously imported for which no entry for consumption was made before that day.

43. Section thirteen of this Act shall be deemed to have come into force on the twenty-ninth day of June, one thousand nine hundred and forty-two.

44. Part XVI of the *Special War Revenue Act* as enacted by section thirty-six of this Act, shall be deemed to have come into force on the first day of July, 1942, and Part XVII thereof, as enacted by the said section, shall be deemed to have come into force on the twenty-fourth day of June, 1942.

45. Sections five to eleven inclusive of Schedule I to the *Special War Revenue Act*, as enacted by section thirty-seven of this Act, shall be deemed to have come into force on the twenty-fourth day of June, one thousand nine hundred and forty-two, except the proviso to section ten of the said Schedule I which shall be deemed to have come into force on the fourteenth day of July, one thousand nine hundred and forty-two.

46. Notwithstanding the provisions of section forty-two of this Act, paragraph (a) of section two of Schedule II to the *Special War Revenue Act*, as enacted by section thirty-nine of this Act, shall be deemed to have come into force on the sixteenth day of February, one thousand nine hundred and forty-two and to have applied on all goods imported or taken out of warehouse for consumption on and after that day and to have applied to goods previously imported for which no entry for consumption was made before that day.

47. Sections twelve to fourteen inclusive of Schedule I to the said Act as enacted by section thirty-eight of this Act shall be deemed to have come into force on the fourteenth day of July, one thousand nine hundred and forty-two.

48. Sections one, seven and eight of Schedule VI to the said Act, as enacted by section forty-one of this Act, shall be deemed to have been repealed on the fourteenth day of July, one thousand nine hundred and forty-two.

49. Subsection three of section one hundred and forty-two of the said Act as enacted by section thirty-six of this Act shall be deemed to have been repealed on the fourteenth day of July, one thousand nine hundred and forty-two and the following shall be deemed to have been substituted therefor on that day:—

“(3) Where goods mentioned in the said Schedule VI, having been manufactured or produced in Canada or imported into Canada, are sold for consumption or use, the vendor shall, before the expiration of the day on which he delivers such goods, compile a statement of all such goods which he delivered that day, showing the date of the sale and the quantity and price of the goods sold, and shall affix to the said statement, and cancel, an excise stamp or stamps to the amount of the tax imposed by subsection two of section one hundred and forty of this Act.”

50. Sections two to eight inclusive, of this Act shall be deemed to have applied to premiums received by insurance companies in Canada during the calendar year 1941 and each calendar year thereafter.

EXHIBIT 6

DOMINION-PROVINCIAL TAX AGREEMENT ACT

Whereas the Dominion and the provinces and certain municipalities have been levying taxes upon incomes and upon corporations, and it is expedient during the continuation of the present war and for a

certain re-adjustment period thereafter that the Dominion only should levy such taxes: Therefore, His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. This Act may be cited as *The Dominion-Provincial Taxation Agreement Act, 1942*.

2. The Minister of Finance, with the approval of the Governor in Council, may enter into an agreement with the government of any of the provinces of Canada to provide, in accordance with and subject to such terms and conditions as may be set out therein, that the province and its municipalities shall cease to levy personal income and corporation taxes as defined in such agreement and subject to such exceptions as may be set out in such agreement, for the duration of the war and for a certain re-adjustment period thereafter, and to provide for the payment of compensation by the Dominion to the province therefor.

3. The annual amount of such compensation shall be,

(a) in the case of the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec, respectively as follows:

British Columbia.....	\$12, 048, 367. 51
Alberta.....	4, 080, 860. 64
Manitoba.....	5, 054, 740. 92
Ontario.....	28, 964, 039. 54
Quebec.....	20, 586, 074. 56

being an amount in each case calculated as equivalent to the total revenue obtained by the said provinces from personal income and corporation taxes during the fiscal year of each of said provinces and of municipalities therein ending nearest to the thirty-first day of December, 1940, which by the terms of the agreement will cease to be levied; and

(b) in the case of the provinces of Nova Scotia, New Brunswick, Prince Edward Island and Saskatchewan, respectively as follows:

Nova Scotia.....	\$2, 585, 308. 72
New Brunswick.....	3, 278, 574. 15
Prince Edward Island.....	264, 769. 94
Saskatchewan.....	4, 330, 471. 29

being an amount in each case calculated as equivalent to the net debt service paid by the province during its fiscal year ending nearest to December 31, 1940 (not including contributions to sinking funds) less the revenues obtained by the province from succession duties during the said fiscal year:

Provided that any arrears of personal income and corporation taxes collected by a province after the close of its said fiscal year may, in accordance with and subject to such terms and conditions as may be set out in the agreement, be deducted from the annual amount payable to the province and shall be paid to the province after the termination of the agreement.

4. The agreement may also provide that in the case of the Provinces of Nova Scotia, New Brunswick, Prince Edward Island, Manitoba

and Saskatchewan, the Dominion shall pay by way of additional subsidy during each year of the term of the agreement the respective amounts hereinafter set forth:

Nova Scotia.....	\$325,769.31
New Brunswick.....	371,493.30
Prince Edward Island.....	437,174.02
Manitoba.....	600,000.00
Saskatchewan.....	1,500,000.00

5. The agreement may also provide, in accordance with and subject to such terms and conditions as may be set out therein, that the Dominion shall pay to the province the amount by which the net receipts from the tax imposed by the province on the sale of gasoline are less in each case than the following amounts:

Nova Scotia.....	\$2,853,363.82
New Brunswick.....	2,101,072.01
Prince Edward Island.....	307,901.72
Quebec.....	11,803,248.13
Ontario.....	26,608,290.59
Manitoba.....	2,678,148.64
Saskatchewan.....	3,397,279.42
Alberta.....	3,221,975.68
British Columbia.....	3,763,625.95

being an amount in each case calculated as equivalent to the net receipts of the province from the tax imposed by the province on the sale of gasoline during the fiscal year of the province ending nearest to December 31, 1940.

6. The amounts payable to any province pursuant to an agreement made under the provisions of this Act or under any agreement heretofore made within the terms hereof shall be a charge upon the Consolidated Revenue Fund of Canada and payable out of any unappropriated moneys forming part thereof and shall be paid at such times and in such manner as may be set out in the agreement.

7. This Act shall be deemed to have come into force on the fifteenth day of March, 1942.

EXHIBIT 7

WAGE CONTROL IN CANADA

SUMMARY

It is illegal in Canada to increase or decrease basic rates of wages without the permission of the National War Labor Board. Automatic wage increases, in the form of a bonus of 25 cents a week, are allowed for each 1-percent increase in the cost of living. The wage controls, although setting a ceiling and a floor for basic wage rates, do not limit total labor income. (Overtime is thus allowed.) The legislation was designed as an inflation curb and is a part of a program which included price stabilization.

Development of this legislation was a gradual process. There was first (late in 1939) a statement of policy as to wage increases in war industries. The present over-all controls which superseded more

limited controls imposed in December 1940 were imposed in late 1941 and have been variously amended since.

Available indexes show that the cost of living, which rose from 110.5 to 115.5 between June and October 1941 (before price controls were imposed), has remained almost stationary since, standing at 116.1 in May 1942. Average per capita weekly earnings in all industries increased from \$25.25 on June 1, 1941, to \$28.65 by May 1, 1942.

The action in Canada may be contrasted with the policy in the United States and Great Britain. The British Government requested labor unions to prevent wages from rising, and this is said to have been successful up to a point, but this point is now regarded as having been passed.¹ The London Economist (June 27, 1942) has commented on how "wage rates have risen haphazardly, disparately, anomalously, and unevenly, ever since the war started." Bowley's index of weekly wage rates showed an increase from 106 in August 1939 to 134 in April 1942. In the United States, factory average weekly earnings have increased from \$34.26 in June 1941 to \$38.93 in May 1942.

A more detailed examination of the Canadian controls and their history is set out below.

I. Background: General indexes of economic conditions.

Canadian wartime wage controls were applied first to war industries.² The wages in these industries of course are influenced directly by war expenditures of the Government. For this reason statistics on war expenditures are presented for certain dates.

During January 1940 expenditures amounted to \$13,000,000; in June 1940, to \$40,000,000; in December to \$84,000,000. During June 1941, the amount was \$65,000,000 (\$108,000,000 in July); in November \$120,000,000, in December, \$124,000,000; in February 1942, \$133,000,000; in April \$205,000,000.

The growth of volume of business, changes in the cost of living, in earnings and in pay rolls, that occurred during this expansion of the war program are indicated by the following statistics:³

¹ Washington Star, August 5, 1942. (A review of a London Times editorial of August 4, 1942.)

² U. S. Congress. House. Banking and currency committee. 1 hearings, price-control bill, 1941, p. 685 (memorandum from Leon Henderson).

³ Canada, House of Commons Debates, June 23, 1942; Appendix to the Budget, 1942-43, pp. 44, 45; Dominion Bureau of Statistics, Annual Review of the Employment Situation in Canada during 1941; Monthly Review of Business Statistics, April 1941, June 1942.

	1940				1941				1942		
	Jan.	June	Oct.	Dec.	June	Oct.	Nov.	Dec.	Feb.	Apr.	May
Physical volume of business (1935-39 = 100) -	114	120	130	128	137	129	132	141	134	140	132
Retail sales (1935-39 = 100) -----	90	121	132	174	134	152	147	202	120	155	116
Cost of living (1926 = 100) -----	104	105	107	108	111	116	116	116	116	116	116
Employment, all industries (1926 = 100) -----	116	121	136	139	153	166	168	169	165	165	167
Average weekly earnings -----	-----	-----	-----	-----	\$25.25	\$26.37	\$27.02	\$27.32	\$27.65	\$28.47	\$28.65
Pay rolls -----	-----	-----	-----	-----	100	113	117	120	119	-----	-----

Wage controls have not attempted to limit total labor income. They are intended to set a ceiling and a floor for wage rates, instead. For this reason, facts about wage rates are significant. The following were the principal facts underlying the first order (December 16, 1940) prescribing a wartime wages policy for industries covered by the Industrial Disputes Investigation Act:

1. Average money wage rates had reached the highest point in Canadian history, with the exception of 1920.
2. Wage rates were 4 percent above 1929 level.
3. Increased employment combined with high wage rates put pay rolls at their highest point at any time.
4. Cost of living had increased little since the beginning of the war, and that was far below 1920 or 1929 levels.
5. Real wages were at an all-time high.⁴

II. Purposes of wage stabilization.

The principal purpose of the original order was to stop or limit inflation. It was said that "inflation is inevitable if wages continue to rise, because it is not physically possible to devote nearly half of our national income to war purposes and at the same time to have a general increase in real wages." The later plan (1941) added the further purpose, which it had been sought to attain by other means earlier, of stimulating transfer of labor to production of defense materials by limiting wage increases in industries not engaged in war production.⁵

III. Development of wage stabilization.

Authority for Canadian Dominion Government regulation of wages in wartime derives from the War Measures Act. Prior to the war, the constitution and judicial decisions had given jurisdiction over wages and related matters to the provinces rather than the Dominion Government.⁶

The first step in development of wage control was extension (by Order in Council of November 7, 1939) of conciliation machinery of the Industrial Disputes Investigation Act to disputes between employers and employees "engaged in the production of war supplies of every sort."⁷ As policy for the conciliation boards (appointed at request of disputants on the point of a strike or lockout) the Government in June 1940,⁸ suggested that "'reasonable' wages and hours should be maintained, and that temporary increases in wages 'might well be in the form of bonuses.'"⁹

Only with the order in council (7440) of December 1940 was there established a uniform wage policy for conciliation boards, to which the boards were compelled to adhere. The order provided that (a) with certain exceptions, the highest rates of wages (not earnings) paid by the employer between 1926 and December 16, 1940, should be regarded as fair and reasonable, might be restored if necessary, and be maintained; but wage rates ought not go above this ceiling. The order further provided that (b) flat-rate bonuses could be paid in the event of increased costs of the basic necessities of life (but not as a

⁴ Canada's Wartime Wages Policy, supplement to the Labour Gazette, in Industrial Canada, August 1941, p. 41.

⁵ U. S. Department of Labor, Wartime Regulation of Wages and Hours in Canada, p. 47.

⁶ Plumptre, A. F. W. Canadian War Finance, Apr. 1, 1941, p. 52.

⁷ *Ibid.*, p. 54; International Labour Review, February 1941, 43:184.

⁸ Labor difficulties and dissatisfaction emerged when the fall of France brought a rapid industrialization of Canada's war effort. Plumptre, *op. cit.* p. 56.

⁹ Plumptre, *op. cit.* p. 57.

protection against increases in the cost of all purchases) as a supplement to the basic wage rate.¹⁰

Uncertainties in application of the order led to a Supplementary Order establishing a specific bonus of 25 cents a week for every cost of living increase of 1 percent; the bonus ought to be paid to all workers below the grade of executives and to Government employees.¹¹

The payment of a cost of living bonus was made mandatory in settlement of wage disputes in war supply industries (handled under the Industrial Disputes Investigation Act).¹² And an Industrial Disputes Investigation Commission was established to attempt speedy settlement of disputes without creating conciliation boards.¹³

The controls thus established were found not entirely successful in operation. The scope of the regulation therefore was broadened, and new administrative machinery was established. The new system came into effect on November 15, 1941, and subsequently has been amended several times. The order of October 25, 1941, modified rules established by earlier orders, and established a National War Labor Board together with five regional war labor boards.

Where formerly it was "not illegal for employers in war industries to pay wages higher than those which would conform to the Government's principles"; and employers in fact "not infrequently [paid] wage rates or grant[ed] bonuses in excess of the rates and bonuses recommended in the Government's statements of basic principles";¹⁴ it became illegal to increase or decrease basic rates of wages without permission of the National War Labor Board (by operation of Order in Council P. C. 9514, December 9, 1941). Wartime wage regulations were at the same time extended from application to all employers in war industries and employers of 50 or more (10 or more in construction) in nonwar industries, to cover all employers in industry and commerce, except the different governmental authorities, the agricultural, fishing, hunting, and similar occupations, private domestic employers, hospitals, schools, and other specified nonprofit organizations.

Salaried employees, above the rank of foreman, including corporation directors (or salaried employees earning over \$250 per month, or as determined by the War Labor Board), are brought into the stabilization scheme as a result of Order P. C. 9298, in force December 6, 1941. The ceiling for salaries was the most recent rate established before November 7; for bonuses, and shares of profit, the rate for the year ending November 6, 1941.

Reasonable increases of pay for promotion are permitted for salaried employees as well as for wage earners. Methods of adjustment of salaries in newly organized businesses were provided at the end of February 1942.¹⁵

¹⁰ Canada, Minister of Labor, *Labour Gazette*, March 1942, 50:63; Plumtre, *op. cit.*, p. 60; Canada, Dominion Department of Labor. Circular, in U. S. Bureau of Labor Statistics, *Monthly Labor Review*, June 1941, p. 1392.

¹¹ U. S. Congress, *op. cit.* (memorandum), p. 687.

¹² U. S. Bureau of Foreign and Domestic Commerce, *Foreign Commerce Weekly*, August 9, 1941; *Christian Science Monitor*, July 8, 1941, p. 2.

¹³ U. S. Congress, *op. cit.* (memorandum), p. 687.

¹⁴ *Loc. cit.*

¹⁵ See *International Labour Review*, April 1942, 430, 431.

The National War Labor Board (composed of a chairman and four or more representatives for employers, and a like number for employees; and with a salaried executive committee of the chairman and two members) administers the wage stabilization order, the Fair Wages and Hours Act of 1935, and the order (of October 4, 1941) on minimum wages for all employees of contractors for Government supplies.¹⁶

The general ceiling is at rates of wages paid on November 15, 1941. For purposes of determining fair and reasonable wages, and allowing increases to such a level, wage rates paid for comparable work in the locality, or in comparable localities, are taken as a standard. Increases of rates may be permitted when the basic scale of wage rates paid by the employer is found to be low by use of such a standard.

The payment of a cost-of-living bonus to all manual and clerical workers of the rank of foreman or below is required in every establishment unless financial inability, or relatively high wages, is demonstrated. The amount of the bonuses is to be determined and announced each 3 months by the National War Labor Board. A change of 1 percent in the cost of living brings—

1. An increase of 25 cents per week for all male adult employees, and for all others earning \$25 or more per week.
2. An increase of 1 percent of the basic weekly wage rate for male employees under 21 years of age, and women earning less than \$25 per week.¹⁷

IV. Effect of wage stabilization.

The cost-of-living bonus is relatively more advantageous to the low-paid employee than to the better paid, since it is a larger proportion of his total wage.

Comparison of the cost of living and earnings indexes may indicate the working of the controls. Between June and October 1941 the cost of living index rose from 110.5 to 115.5. Thereafter it has been held almost unchanged, rising only to 116.3 in November, falling to 115.4 in January, and making the minor rise to 116.1 by May 1942. Average per capita weekly earnings increased more slowly than cost of living between June and September, but continued upward thereafter while the cost of living remained stable. The average for all industries was \$25.25 on June 1, \$26.37 on October 1, \$27.02 on November 1, \$26.13 on January 1, and \$28.65 on May 1. Aggregate pay rolls rose from an index of 100 on June 1, 1941, to 119.4 on March 1, 1942.

These changes in pay indexes have been explained as in part resulting from payment of cost of living allowances under the orders. Other factors have been concentration of workers in higher paid heavy industries, and seasonal lay-offs, in lower brackets of earnings.¹⁸

[John C. Jackson, Economic Section, Legislative Reference Section, Library of Congress, August 6, 1942.]

¹⁶ See International Labour Review, December 1941, 669, 671.

¹⁷ Canada, Department of Labor. Labour Gazette, March 1942, p. 63.

¹⁸ Canada, Department of Labor, The Labour Gazette, May 1942, 52:608; ——— Dominion Bureau of Statistics, Monthly Review of Business Statistics, June 1942, 17:23; Annual Review of the Employment Situation During 1941, pp. 55, 56.

EXHIBIT 8

COMPULSORY SAVINGS

PROMPT PAYMENT PLANS FOR AN ANTI-INFLATIONARY INCOME TAX

Several antiinflationary prompt collection revenue schemes have been proposed since the beginning of the war. These include withholding taxes, forced loans or savings, and post-war credit schemes other than taxes with forced savings features.

Examples of withholding taxes (without any compulsory savings feature) are the proposal of the Treasury¹ to collect a flexible percentage of the year's income subject to income tax, at source of payment each month; Heller's scheme of at-source collections and prompt payments; Lutz's proportional rate gross income tax, withheld at source;² Hart's flexible tax plan.³

These particular devices are less complex than Keynes' plan of compulsory savings. His plan provides for withholding a part of income at source each pay day and crediting the individual with an amount that is increased with the size of income (though not proportionally), to be repaid after the end of war. This device, though lacking some details proposed by Keynes, was adopted (in 1941) by Great Britain⁴ for personal income subject to income tax. And post-war credit has been added to the excess-profits tax (also in 1941). The Minister of Finance of Canada has proposed a plan of compulsory savings as a feature of income and excess-profits taxes.⁵

Other post-war credit plans include forced loans from funds for repayment of private debt (proposed by Abbott, in *Tax Institute*, op. cit.); the German plan of granting deduction from taxable income of amounts loaned to the Government (see *Foreign Commerce Weekly*, May 2, 1942); the plan of *The London Economist*, to offer post-war credit as compensation for losses due to mobilization for war. (See *the Economist*, April 11, 1942. 142:495.)

SCOPE OF PAPER

The present paper is limited to a discussion of the Keynes plan and the Canadian plan with respect to individual income. In summary, we discuss:

A. 1. Background. 2. The analysis of cause of inflation, alternative financial methods and controls, and distribution of ability to pay for the war, as related to this revenue device. 3-5. The nature of the Keynes plan.

B. The Canadian proposals.

C. 1-3. Effects of the plans as revenue and control measures; 4. post-war aspects of the plans.

¹ In U. S. Congress, House Ways and Means Committee, hearings, revenue revision of 1942, p. 5.

² Each of these is in *Tax Institute*, *Financing the War*, 1942.

³ *American Economic Review*, March 1942.

⁴ Professor Hart says that New Zealand also has a "compulsory bond scheme." See U. S. Congress, House Committee on Ways and Means, hearings, revenue revision of 1942, p. 688.

A war loan was issued in September 1940; it is not compulsory, but the Minister of Finance "has power to compel people to contribute" and "has indicated that for the purposes of the Finance Emergency Regulations, 1940 (No. 2) he will not regard any person as having subscribed in proportion to his means unless he has subscribed to the loan at least the amount of the income tax payable by him in respect to income derived during the year ended March 31, 1939, decreased in the case of individuals by £50 and in the case of companies by £70." Round Table, March 1941, 122:381.

A law of 1940 provided for prepayment of social insurance and national security taxes whenever National Savings Bonds are bought. The amount of these taxes which would be paid on income from the bonds is discounted and added to the purchase price but not to the redemption value of the bond.

⁵ New Zealand Statutes, 1940, 4 Geo. VI, Finance No. 2, Act No. 19, section 2, p. 235.

⁶ See Budget speech of June 23, 1942.

A. KEYNES PLAN

The Keynes plan added loan or savings features to an income tax; but, it is worth noting that "any conceivable type of tax may be converted into a forced loan."⁶ Thus, for example, the British excess-profits tax has been made a forced loan to 20 percent of its amount.

1. *Background.*

The choice of income tax for the scheme may be accounted for partly by the general situation at the time of the proposal; and so may the rates, and the alternatives against which it was proposed. The plan first was offered at a time when "Sir John Simon [was appealing] vaguely for sacrifice, and the Labor Party [replying] with a demand for equality;"⁷ when "public opinion was not prepared to face the financial sacrifices demanded by a war effort on the required scale;"⁸ and when the Government had "been following, financially, a policy of drift which would have meant the beginning of inflation but for the happy accident that many people have been holding larger idle bank balances and the deplorable fact that we have been drawing upon our foreign exchange reserves and commodity stocks at an uneconomic rate."⁹

The Government had realized "the necessity of saving, of cutting down consumption, of avoiding [further] rises in prices and ultimate inflation"; had established funds for stabilizing prices, and had "reiterated the doctrine that rich and poor must contribute alike and be willing to make sacrifices."¹⁰

2. *Analysis of cause of inflation, and necessity of plan.*

THE PROBLEM

Mr. Keynes' letters to the London Times, later revised and printed as a book under the title "How to Pay for the War," offered the first original and systematic suggestions for the situation. The fact which he stressed was that, given the level of employment and output (assumed to be the highest permitted by resources and organization), and the level of imports; and accepting the priority of war production and export trade requirements, the size of the "civilian cake" was fixed.¹¹ Actually, attaining "an adequate war effort will require some diversion of the production effort which previously provided for private consumption."¹²

The problem of war finance was stated to be to distribute the product left for civilians in the wisest and most equitable way.¹³ It was

⁶ Hart, A. G. In Tax Institute, *Financing the War*, 1942, p. 160.

⁷ The New Statesman and Nation, March 2, 1940, 19:264.

⁸ This refers to the original scheme of November 1939; but, as Miss Comstock shows, was applicable to the time (February 1940) when the revised plan was offered. See her paper in *Annals*, March 1941, pp. 111-112. The situation was thought in March 1940 to be understood better, generally, than in November 1939; but the events of the next few months showed how inadequate was the Government's financial program—and of course, its production program.

⁹ The Statist, March 2, 1940, 135:215.

¹⁰ The Spectator, March 1, 1940, 5827:273.

¹¹ How to Pay for the War, 1940, pp. 4, 12. At this point he seems to say that output actually was at capacity. Burns (in Mr. Keynes Answered, pp. 10-13) said. Yet, Keynes showed that the population earning less than \$1,000 annually could pay taxes, allow a slight rise of the cost of living, make forced savings so as to have money at the end of the war, and still have an unchanged total (though not necessarily average per person) real income. What is required is overtime and speeding up. See Burns, op. cit., pp. 18, 19; Riches, E. J., in *International Labour Review*, June 1940, 41:567.

¹² Keynes, J. M., in *The New Republic*, Supplement, July 29, 1940, 103:156.

¹³ How to Pay for the War, p. 2.

made more difficult by the increase of total wage payments due to increased employment, longer hours, overtime pay, and rising wage rates. The shortage of goods and the increase of demand are the source of inflation. Reduction of consumer demand was necessary, and his device was proposed as a means of effecting equitably the necessary reduction.¹⁴

THE BASIC DATA

The basic data of this proposal were (a) a theory of inflation; (b) a statistical estimate of the amount and distribution of national income [later official estimates have been substituted for his estimates]; and (c) a statistical estimate of wartime financial needs.

(a) *Theory of inflation.*—1. Affirmative statement: Both the explanation of the cause of inflation and the method of stopping it emphasize change in consumer demand:

If the necessary proportion of consumers' purchasing power is not withdrawn from the market, a significant rise in prices cannot be avoided. If, on the other hand, the problem is tackled indirectly by withdrawing purchasing power, there will be no reason why the vicious process [of inflation] should be started by prices being forced up at the demand end.¹⁵

Inflation is a method of finance alternative to the plan proposed. It is the most inequitable of methods. "No one benefit[s] except the profiteers." It results in restriction of wage earners' consumption through rising prices. Though workers increase their labors, they will obtain no increased reward in the way of consumption goods. Not only do many workers fail to get as great increases of income as others and thus are in a relatively worse position; but the benefits of all increased incomes obtained to meet the higher cost of living go to the capitalists who raise prices on the available goods, the quantity of which cannot be increased by paying higher prices. And after the end of war, the capitalists remain in a relatively better position. They were able during the war to save out of profits, and also to lend to the Government out of their income; their debt holdings give them greater liquid resources after the war, while wage earners and fixed-income groups have smaller resources. These groups after the war "own nothing, [had] lost the right to consume now [during the war] and [have] gained no rights to consume hereafter."¹⁶

The other alternative method of obtaining the resources needed by the Government, and of distributing the remaining product among civilians, was comprehensive rationing on the German model. Rationing must be avoided as "so obnoxious to the British mind that the less efficacious levies on wages were to be preferred," even though Keynes stated the belief¹⁷ that "rationing and price controls used in Germany would increase British wartime efficiency by more than 50 percent."¹⁸

2. *Opposition: Beginning of inflation:* To find the cause of the beginning of inflation in increased wage-earner income may be unjustified. In previous wars, as Hardy shows, the causes of initial price advances have been (1) large Government purchases, in many of

¹⁴ The proposal was consistent with his earlier writings. In his latest book written during the depression, he had emphasized change in effective demand as cause of change in the general level of employment.

¹⁵ *How to Pay for the War*, pp. 6, 55, 71-73.

¹⁶ See *How to Pay for the War*; and the *New Republic*, loc. cit.

¹⁷ *How to Pay for the War*, p. 75.

¹⁸ Comstock, Alzada, in *Tax Institute, Financing the War, 1942*, p. 100. Hart also has opposed rationing for the United States, assuming that it cannot immobilize purchasing power. See the same, p. 159.

which various agencies have competed; (2) expanded business purchases; (3) speculation in commodities.¹⁹ (Burns discusses the same factors, in his attack on Keynes.)

It may be noted here that the Keynes plan emphasizes withdrawing consumer purchasing power to the exclusion of the withdrawal of business funds from bidding up prices of machinery and resources for capital formation. But, war requires reduction of civilian capital formation as well as of civilian consumption.²⁰

(b) *Distribution of income.*—1. In support of Keynes' plan: The Keynes plan rests on an assumption about the amount of national product, and on a theory of inflation. It also was formulated with reference to a particular distribution of income, which is involved in the other basic points. The distribution of income in Great Britain follows a different pattern from that of the United States: A much greater proportion of national income is received by persons with less than \$1,000 per year, in Great Britain.

It may appear likely, in the light of this fact, that increases of income in the lower brackets in Great Britain would raise consumer demand almost by an equal amount, and thus in wartime would be a potentially inflationary development.

The figures in the table below show the comparative distribution of income in Great Britain and the United States. They are relevant for measures to avoid inflation by taxes aimed at different income levels. They also indicate the necessity in Great Britain, if revenue is to be obtained, of heavy taxes extending down to small incomes.

Distribution of income in Great Britain (1940-41) and the United States (1941)

Annual income class	Percent of total number of consumers in this class		Percent of total national income received by each class		Percent of total national income remaining after direct taxes at 1941-42 rates, retained by each class	
	Great Britain	1941, United States	1940-41, Great Britain	1941, United States	Great Britain	United States
Under \$1,000		30.5	58.44	8.2	66.2	
\$1,000 to \$2,000		37.3	18.14	25.0	18.0	
\$2,000 to \$4,000		23.7	8.34	30.1	7.3	
\$4,000 to \$8,000			5.59		4.2	
\$4,000 to \$10,000		6.7		17.3		
\$8,000 and over			9.49		4.3	
\$10,000 and over		1.8		19.4		

Sources: Computed from: Great Britain, Parliament, Analysis of the Sources of War Finance, 1942; p. 7; U. S. Congress, Staff, Joint Committee on Internal Revenue Taxation, Ways and Means Committee, 1 hearings, revenue revision of 1942, pp. 362-378; Office of Price Administration, Estimates of the Distribution of Consumer Income in the United States, 1941, June 26, 1942.

2. *Opposition: Statistics and equity:* These statistics are relevant to the problem of equity in taxation, as well as to the problem of inflation and revenue. In respect of equity, three cautions about the use of them for practical policy sometimes are indicated; they deal with the problem "Can the rich pay for the war?"

¹⁹ Hardy, C. O., *The Control of Prices*, 1940, p. 5.

²⁰ Basch, Antonin, *The New Economic Warfare*, 1941, p. 46; Gilbert, Milton, in *Survey of Current Business*, March 1942, pp. 15, 16.

(a) Some arguments seem to assume that, since the rich cannot pay all the war costs, it is better to push revenue programs which rely on exacting maximum contributions from other groups. Thus, Mr. Keynes spoke against a capital levy in wartime, on the grounds that it would not raise sufficient funds, and wouldn't reduce current consumption; and also indicated that taxes might be harmful to savings.²¹ This led to tax proposals which would increase the load on small incomes, and which were much less burdensome on large income than Great Britain has found necessary. Yet his plan was offered in the interest of equitable distribution of the cost of war. One critic who favors an annual capital levy during the war said that "total consumption gets down anyway; that is Mr. Keynes' own main argument. He is not justified in shifting his ground when it is proposed that the capitalist should contribute to the war fund immediately; the effect on consumption is irrelevant to the main question which is how to distribute the total burden equitably."²²

(b) It has been suggested that tax evasion by the rich, which "may now [1940] be anything up to £200,000,000 or much more" reduces the value of "Statements based on the Inland Revenue's Estimates of Taxable Incomes;" and that the rich therefore may be able to pay more than is indicated by the statistics.²³

(c) The large number of families receiving low incomes leads to a demand that income tax be extended to them, since they are the most numerous consumers, and it is supposed that it is from their purchases that inflation will result. The larger incomes of defense industry workers come at a time when their share in physical commodities can be enlarged only through reduction of the share of other persons; to allow them to try to get more things to consume through the usual methods of paying more means inflation. The proponents of reduction of small incomes in the interest of preventing inflation include many who do not regard high personal incomes, and profits, as inflationary, but as justified on grounds of incentive.

To suggest that wage earners should put forth their maximum effort for motives of patriotism and without asking for wage increases, and to argue at the same time that profit incentives must be maintained for the entrepreneur, is, to say the least, illogical.²⁴

(d) The plan was offered to meet a moderate estimate of the revenue need; because it underestimated military and civilian requirements it would have been inadequate²⁵ as a revenue measure. As *The Economist* pointed out in 1940, this criticism "would lead not to its [the plan's] abandonment but to its intensification."²⁶

3. *Terms of the plan.*

As presented by Mr. Keynes, the plan was intended to take one-third of earnings on the average, and progress steeply on classes above £5 per week.

In the case of the richer classes the greater part of their contribution was to be withheld permanently as a tax, in the case of the working classes the greater part or the whole was to be withheld temporarily as compulsory saving and returned to them after the war.²⁷

²¹ How to Pay for the War, pp. 59, 60.

²² Bowen, Ian, in the *New Statesman and Nation*, March 23, 1940, 19:398.

²³ *Ibid.*

²⁴ Riches, R. J., *Deferred Pay, the Keynes plan*, in *International Labour Review*, June 1940, p. 577.

²⁵ Comstock, Alzada, in *Annals*, March 1941, p. 112.

²⁶ *The Economist*, March 2, 1940, 138: 363.

²⁷ Keynes, in *The New Republic*, loc. cit.

By increased production, and allotments to aid families with dependent children, the £5 per week—\$1,000 per year—group would have an unchanged standard of living; the free income of all persons receiving above \$1,000 would be decreased by one-third on the average.²⁸

To achieve this result Mr. Keynes proposes: That the system of children's allowances under the existing income tax should be abandoned and replaced by a flat payment of 5s. per week per child, both for income taxpayers and for the insured population; that a basic minimum income of 35s. a week in the case of unmarried men and 45s. in the case of married men be free of deferment; that a percentage of all incomes in excess of this basic minimum be paid over to the Government partly as direct taxes and partly as deferred pay, the combined percentage taken rising steeply as the level of income increases; that the appropriate part of a man's withheld income be used to discharge his income tax if any and the balance be credited to him as a blocked deposit carrying interest at 2½ per cent compound; that each individual be allowed considerable choice as to the institution—such as a friendly society, a trade-union, or the Post Office Savings Bank—in which his deferred pay should be deposited; and that deferred pay be released when necessary to meet certain pre-war commitments (such as life-insurance premiums and hire-purchase installments), death duties, new life insurance or endowment policy premiums, and certain family and personal emergencies such as illness. Finally, "men on active service might have their economic position made a little more equal to the position of those remaining in civilian employment by being credited with an appropriate blocked deposit proportional to their length of service. A 'veteran's bonus' is a peculiarly fit obligation for discharge by a capital levy on wealth" (p. 50); and excess company profits, after payment of taxes, might also be placed in blocked deposit.²⁹

4. Rates.

The table below shows the income tax and deferred pay rates proposed by Keynes and those established in 1941.

*Compulsory savings under the Treasury and Keynes plan for a married man with no children*³⁰

Income	Income deferred		Income tax		Income remaining	
	Keynes plan	Treasury plan	Keynes plan	Treasury plan	Keynes plan	Treasury plan
\$400	None	None	None	None	\$400	\$400
\$640	\$64	\$4	None	None	576	636
\$800	124	52	None	None	676	748
\$1,000	160	60	\$32	\$48	808	892
\$1,200	196	64	60	104	944	1,032
\$1,600	272	112	124	212	1,204	1,276
\$2,400	304	140	372	544	1,724	1,716
\$4,000	540	192	872	1,212	2,588	2,596
\$400,000	16,532		323,072		60,396	
\$600,000		260		570,988		28,752

5. The plan adopted.

The system was introduced into income tax in 1941 as an accompaniment of reduced personal allowances (from \$680 to \$560 for married persons, and \$400 to \$320 for single persons), of lower exemption limit, and lower earned-income credit (from 16½ with a maximum credit of \$1,000 to 10 percent with maximum credit of \$600). The amount of the compulsory saving "is the difference between the tax

²⁸ How to Pay for the War, pp. 11, 32, 33, 37.

²⁹ Riches, op. cit., p. 367.

³⁰ Weintraub, Sidney, in Harvard Business Review, autumn 1941, p. 60.

computed on the basis of (a) the old personal exemptions and credits and (b) the new exemptions and credits." The amount is a credit to be repaid to the taxpayer after the war. "This post-war credit is limited as follows: (a) All earned income * * * \$250 for a single person and * * * \$260 for a married person; (b) all investment income * * * \$40 for a single person and * * * \$60 for a married person."³¹

The extra tax which any individual pays by reason of the reduction in personal allowances and the reduction in earned-income deductions, is to be offset after the war by a credit which will be given to the income-tax payer at the Post Office Savings Bank. In describing this part of the income tax, the Chancellor of the Exchequer expressed the point of view of those who believe that the income tax should be used as a part of an antiinflation system. He said that the primary purpose of the tax increase was not to obtain taxation for the sake of revenue but to obtain a cut in spending power during the war.

The plan as it was adopted lacked some of the details proposed by Mr. Keynes, but the omissions do not affect the efficacy or lack of efficacy of the weapon. Mr. Keynes had advocated provisions for family allowances and for emergencies such as heavy medical expenses.³²

B. FORCED-SAVINGS PROPOSAL IN CANADA

Canada recently has proposed forced savings for individual income tax, and for corporation excess profits.³³

1. *Situation for which proposed.*

As in Great Britain, the plan was presented to meet revenue and price problems of an economy approaching full employment. In the first quarter of this year, preceding the proposal, war direct expenditures were \$500,000,000; they had amounted to \$275,000,000 in the first quarter of 1941; the increase thus was 80 percent. General employment was up 22 percent over the preceding year; manufacturing employment, 30 percent greater; weekly average wage earnings had risen through the year. Retail sales were up 20 percent over the previous year, 50 percent over pre-war. Quantity of goods sold, other than autos, was up 25 percent over pre-war. National output (dollar value) was up 20-25 percent, but arms expenditure had risen more. Civilian consumption also had risen, but, as comparison of government expenditure and total output shows, full employment was being approached. The parallel increase of armaments output and consumption was possible through using up inventories, less than full maintenance of capital, using up foreign funds, and importing capital. Even so, the addition of sources other than current output did not furnish a quantity of commodities which expanded as rapidly as the Government's income and expenditure. Government receipts were expanded by drawing on idle bank balances and bank credit.³⁴ Scarcity of labor, loss of Far Eastern supplies, submarine activity, "shortage of power, congested transportation facilities, and widely ramifying limitations of productive capacity" had brought the economy to the point where measures suited to full employment of resources, rising money income, and rising prices, were needed.

Controls over wages and salaries, prices, production and supplies, were last year "extended and made more rigorous."

³¹ U. S. Treasury Department, Division of Research and Statistics, "comparison of British and American tax systems, November 1941, p. 4.

³² Comstock, in *Financing the War*, op. cit., p. 102.

³³ See the Budget speech by Mr. Ilsley, in Canada, House of Commons Debates, June 23, 1942, pp. 3586-3920.

³⁴ Canada, House of Commons Debates, op. cit., pp. 3886, 3892, 3893.

2. *Decisive problem the relation of supply and income.*

The characteristic of such an economy, whose development in Great Britain Mr. Keynes had thought decisive for instituting his plan, was pointed out also by Mr. Ilsley:

Though dealers' stocks are large, it simply will not be possible during the present fiscal year for consumers to obtain the quantities of goods which they have been purchasing during the past year. Restrictions on civilian industry [both for consumption goods supply, and private investment] to save materials and manpower will unavoidably multiply.³⁵

And on the money income side:

Increased Government expenditures [from \$1,894,966,000 to \$3,900,000,000] * * * will, with present rates of taxation, leave in the hands of persons and corporations spendable income far in excess of what can be matched at current prices by goods and services.³⁶

3. *Fight inflation through increased saving.*

The devices proposed were part of the policy of fighting inflation, of "pay as we go insofar as it is practicable." They were considered against the standards of "the need for equity, for incentive, and for savings." With respect to savings and paying for the war through borrowing, and thus the accumulation of debt, Mr. Ilsley's standpoint was the same as that of Mr. Keynes:

It is not the size of the debt that is a matter of chief concern. * * * Rather, we are concerned about the distribution of it. It is a matter of first importance that those who have the right to receive payments on Government obligations shall be those who will use the repayments to provide needed improvements in their standard of living, maintain themselves against insecurity, and contribute to the improvement of our productive equipment.³⁷

This was a principal consideration in writing the new income tax. It was proposed that a part of income tax be refundable after the war "with accrued interest at 2 percent." The refundable part is termed "a 'minimum savings requirement'." Compulsory savings were proposed only as a minimum; it is necessary to "secure a very large increase in voluntary savings from individuals this year, in addition to the minimum savings now to be required by law."³⁸

Full mobilization of savings ability of families whose incomes have increased sharply during the war is possible only through voluntary action, not through fiscal action. The reason is that the fiscal unit is the person, and though taxes take account of his family position, they can do so only on a rough average basis. Voluntary saving is limited by the ability of the family rather than the person.³⁹

4. *The proposal.*

The proposal⁴⁰ may be outlined:

Income tax is to be collected at source on income from wages and salaries, dividends and interest. In the case of the self-employed compulsory installments will be payable quarterly.

A single assessment is to be made, combining present national-defense tax, now collected at source; and graduated-income tax, returns for which now are filed at the end of the fiscal year (March 31).

The levy will be on 1942 calendar-year incomes, but payable from September 1, 1942, to August 31, 1943.

³⁵ Op. cit., 3867, 3893.

³⁶ Op. cit., p. 3893.

³⁷ Loc. cit.

³⁸ Op. cit., pp. 3895, 3896.

³⁹ See op. cit., p. 3896.

⁴⁰ Op. cit., pp. 3894-3896.

"Returns are to be filed, as at present, on or before March 31," 1943.

"National defence tax already deducted from 1942 incomes will be credited toward the total payable under the new tax. * * *"

Personal exemptions will continue at \$660 for a single person; \$1,200 for married persons reporting one income.

Two sets of rates will imposed on the entire income of persons receiving more than the exempt minimum:

1. A flat rate of 7 percent for married persons, and "at the same rate for single persons with incomes not exceeding \$1,800"; of 8 percent on single persons with income between \$1,800 and \$3,000, and 9 percent on single persons with income above \$3,000.

2. Graduated rates will begin after \$660, plus a "flat allowance off for married persons and for children."

Allowances are \$150 for married persons, \$80 for dependents.

The rates are quite high. For example:⁴¹

At annual income of—	A single person would pay income tax of—	With minimum savings, a total of—	A married person with two dependents would pay income tax of—	With minimum savings, a total of—
\$1,250-----	\$167	\$267	\$16	\$32
\$1,500-----	247	367	25	49
\$1,750-----	331	471	53	105
\$2,500-----	626	826	217	435
\$5,000-----	1,728	2,128	1,062	1,662
\$10,000-----	4,312	5,112	3,346	4,546
\$100,000-----	80,337	81,317	77,571	78,771

An innovation as compared to other forced savings schemes was made in the interest of equity:

In the case of those with incomes subject to tax, the refundable portion will be greater than the increase [over 1941 rates] in the total taken, so that the net tax on these lower-paid groups will be somewhat lighter than at present, though they will be required to provide a fair share of the increased total assessment.⁴²

Contractual savings, such as life-insurance contracts, principal payments on a mortgage on one residence, pension- or retirement-fund payments "will be accepted as an alternative to the liability to turn over funds directly to the treasury as part of the minimum savings requirement." The justification is that such uses of funds do not "compete with war requirements for goods or services, nor add to the problems of price control and rationing * * *." This also insures that "everyone saves the minimum amount without creating hardship for those who have contracted to save substantial amounts" in the forms listed.⁴³

C. EFFECTS OF THE PLANS

Critical analysis, and support and opposition of the Keynes plan or a modification of it, may be arranged as dealing with (1) the effect on consumer spending and inflation, (2) the effect on inequality of income, (3) the revenue derived from the tax, (4) the post-war effects of repaying the credit.

1. Plan as method of reducing consumer spending.

(a) *Affirmative statement.*—The "absolute necessity for the basic principle of deductions from income" is shown by the Statist:

For there are no alternative methods, other than inflation, of achieving the necessary transfer of resources to the defense sector. Taxation alone cannot be

⁴¹ *Ibid.*, pp. 3897, 3898.

⁴² *Ibid.*, pp. 3894, 3895.

⁴³ *Op. cit.*, p. 3896.

sufficient, for [in]direct taxes are levied on precisely those objects whose consumption has to be restricted, while direct taxes on marginal income tend to reduce incentive. Voluntary savings on their present scale cannot bridge the gap; and any attempt to increase them substantially would involve an unlimited rise in interest rates to induce individuals to refrain from spending the money in their pockets or institutional savers to denude themselves of liquid assets. Only some form of deductions at source can adjust incomes to the shrunken supply of the objects on which incomes are spent.⁴⁴

(b) *Opposition: Plan may not reduce liquidity.*—At low-income levels, there probably is no difference between the effects on spending of a tax and of a tax-with-postwar-credit. At these levels, nearly all income is spent, and forced savings could have little impact on the proportions of saving and spending in which the remaining income is allocated. This may be the more certain if taxes and forced savings are looked at by the taxpayer as being about the same thing. There is some opinion that they are so appraised:

It is * * * to be doubted if in the great mass of small taxpayers, most of whom are fiscally illiterate, the promised certificates of post-war credits will cause much excitement.⁴⁵

Among income classes where there is more choice between spending and saving, a forced loan might have no effect in reducing spending and thus inflation.

A certificate of saving—in bond or other form—might increase liquidity of the person holding it, reducing the incentive to save and hold cash assets. Thus forced loans might reduce savings more and spending less, during the war, than taxes would.⁴⁶

No statistical test of the effects seems possible. But it does appear that taxes have not discouraged savings. This is indicated by the following table from the White Paper on Sources of War Finance:⁴⁷

Personal savings—Great Britain

[In millions of dollars]

	1938	1940	1941
Gross personal savings, including provision for accrued taxation-----	932	2,560	3,636
Death duties, etc-----	360	340	376
Net personal savings after provision for death duties, etc-----	572	2,220	2,460
Accrued taxation-----	72	328	600
Net personal savings after provision for accrued taxes-----	500	1,792	2,660

Whether the original, or an intensified, version of the Keynes plan would have changed this total is impossible to guess, in the absence of statistics on distribution of savings and expenditures by income classes. It seems likely that the significant causes of the growth of savings are (1) greater income, and (2) shortages and rationing of commodities. Personal expenditure on consumption has remained

⁴⁴ The Statist, March 2, 1940, p. 216.

⁴⁵ The Statist, April 18, 1942, p. 282.

⁴⁶ Hart, A. G., in Tax Institute, op. cit., pp. 161, 162, 165.

⁴⁷ The Economist, April 18, 1942, 142: 531.

approximately the same over the last 2 years or more. Less than 50 percent of gross product now goes to civilians.⁴⁸

c. Opposition: Neglects commodity controls in reduction of spending.

The arguments of Keynes⁴⁹ neglect rationing and commodity controls, as being incapable of immobilizing purchasing power. The Keynes scheme or any scheme of taxation may be inadequate to control the cost of living, because it works only from one side of the market. “* * * Mr. Keynes failed, as others have failed, to see that unless the commodity side of the problem was put under control, price increases could not be forestalled.”⁵⁰

The Keynes plan as an anti-inflationary program neglected supply difficulties. Insufficient account was taken of the differences in relative supplies of machinery and other goods—the problem of bottlenecks—and of the way changes in amount and distribution of income change the types of goods demanded and bought. The first of these may be eliminated by the assumption that output is at the maximum permitted by technique and organization. But the problem reappears when income distribution is changed by introduction of a revenue plan. Mr. Riches states the main consideration:

In wartime * * * what matters most for the purpose of maximising war effort is not whose spending is restricted but whether the productive resources set free by the reduction in spending can be adapted quickly to war uses.⁵¹

There is the further charge, with respect to supply, that the assumption of maximum output, on which the fixed “civilian cake” theory and therefore the whole plan rests, is false. It is said that monopolistic business—coal and tin are cited as examples—restrict production at all times, and during wartime are aided by the Government through industry representatives on Government control boards.⁵² Production is never at a maximum, and therefore wage stoppages never are justified.⁵³

2. Reduction of inequality through the plan.

(a) *Affirmative statement.*—The plan, as amended for publication in book form (it originally was presented in newspaper articles) was intended to reduce inequality of fortune during and after the war. Family allotments for aid of dependents would be made to the poorest families. At the end of war, a part of the national debt would be owned by the working class, and the unequal burdens of inflation would have been avoided.

(b) *Opposition; poor subsidize the poor and the rich, and credit is inverse of need.*—One critic (referring only to the war period) has objected that, by lowering income tax exemptions and using the proceeds for family allotments, workers’ incomes would be used to support the poorer families. Thus it is “* * * a plan to level out poverty, to make the poor subsidize the poor * * *.”⁵⁴

In the post-war period inequality might be reduced by a capital levy for paying off the debt account of forced savings. But the plan

⁴⁸ See Federal Reserve Bulletin, June 1942, p. 541.

⁴⁹ And of Hart, cited above on the effects of the plan on spending and saving.

⁵⁰ Comstock, Alzada, in Tax Institute, op. cit., p. 99.

⁵¹ Riches, op. cit., p. 576.

⁵² Burns, Emile. Mr. Keynes answered, 1940, pp. 14-16, and passim; cf. also U. S. Senate, Special Committee to Investigate the National Defense Program. Additional reports, pts. 5, 8, 9.

⁵³ Burns, loc. cit.

⁵⁴ Burns, op. cit., p. 30.

also exerts pressure toward increasing inequality: the plan would give no security at all to the lowest income groups, since they are not in the savings scheme; and accumulations would vary directly with size⁵⁵ of income, thus inversely to need.⁵⁶

There is the further objection that this is a scheme by which the poor lend to the rich during the war:

The holders of certificates will necessarily be at the margin of Federal taxation. Accordingly, the heavier taxes called for by the certificates will be largely upon the certificate holders and their social equivalents, and the difference from a straight income tax is readily exaggerated. It consists chiefly of this: Forced loans striking savings more and spending less than taxes, the certificateholders will consume more during the war and less later than if definitive income taxes were levied during the war. This results in an apparent paradox: Forced loans are a device by which high-income groups push their consumption forward in time [bring it to the present], that is, borrow from low-income groups.⁵⁷

3. Revenue effects.

An estimate of the revenues derived from forced savings in Great Britain may be found in the Chancellor's budget speech (1942). Of \$500,000,000 income tax paid by wage earners, \$240,000,000 "were treated as post-war credits."

For Canada, the yield of compulsory savings is expected to be at the rate of \$125,000,000, over a full year at current levels of income. This is about half the possible yield, and is set so low to take account of the use of alternative methods of savings.

This amount is about one-third of the yield (\$380,000,000) of the income tax and defense tax now in force, with present levels of income.⁵⁸

Possible revenues from changes of the British plan are indicated in some suggestions for extensions of the principle. Speaking of the current budget, The Economist says that:

The only way of raising a substantially larger sum would be by an adoption of the principle of deferred pay. If, for example, it were possible to defer until after the war the payment of all overtime wages, a total of £3,000,000,000 [rather than £2,500,000,000 of revenue possible without this extension] could be brought into the Exchequer and the gap could be completely closed. The present consumption of the wage earners would not suffer to any material extent, and their future security would be greatly enhanced.⁵⁹

4. Post-war aspects of plan.

(a) *Affirmative statement.*—In order to avoid difficulties imposed by the debt at the end of war, Keynes proposed that "an undertaking should be given that a capital levy will be enforced after the war to bring in an amount sufficient to discharge the liability in respect of deferred pay." The levy should be collected in installments, prior to depression.

Deposits in the deferred pay account should be released at the onset of the slump. This "will avoid the necessity of raising other loans to pay for unemployment or for public works and the like as a means of preventing unemployment. The appropriate time for the ultimate release of the deposits will have arrived at the onset of the first post-war slump. For then the present position will be exactly reversed.

⁵⁵ *Ibid.*, p. 39.

⁵⁶ As noted already, the Canadian plan actually reduces taxes taken from 1942 incomes, of the lowest tax-paying incomes, although it draws more heavily on them through addition of forced savings. Taking the present and post-war effects together, the result is better than that of the Keynes plan. But the objections noted above remain.

⁵⁷ Hart, *op. cit.*, p. 165.

⁵⁸ Canada, House of Commons Debates, *op. cit.*, p. 3899.

⁵⁹ The Economist, April 13, 1942, pp. 491, 495.

Instead of demand being in excess of supply, we shall have a capacity to produce in excess of the current demand." ⁶⁰

(b) *Criticism*.—This aspect of the Keynes plan was criticized severely. One critic pointed out that—

The worst evils of inflation occurred in the post-war years of 1919 and 1920. Mr. Keynes' scheme would exacerbate the excess of civilian demand over the supply of civilian commodities in the post-war period. The wage earners out of work would demand their deferred pay at the worst possible moment—when the national economy was going over to a peacetime production.

He points out that the problem is not solely that of total demand and total supply; but—

supply of what, and demand for what? A plentiful supply of machine guns; a plentiful demand for "civies"? Perhaps the workers will after all buy a few of the machine guns. There will be precious little else in the way of supply for them. ⁶¹

In respect of the post-war period, forced savings schemes may not enjoy any advantage as a reflation device.

If we now levy taxes instead of forced loans, we shall also come out in a position to act against deflation. If we end the war with a relatively small public debt and a relatively "sound" record of war finance, a post-war "reflation" campaign will be both feasible and acceptable to the public. ⁶²

From the standpoint of one of the sharpest critics of the plan, forced savings as a reflation device are decidedly inferior to other methods. When wage earners are repaid their savings at the beginning of depression, and spend them, they are subsidizing the rich, saving the capitalists the cost of providing money for public works for the unemployed. ⁶³

A final obvious objection is that no government could bind its successor to make a capital levy. And in the absence of a stable purchasing-power bond representing the savings made, there would be no guaranty of obtaining on repayment the value which savings had at the time they were made.

In summary.

Compulsory savings schemes are proposed for conditions of full employment, when the growth of money income is at a faster rate than that of physical output, and when the share and even the amount of consumers' goods is diminishing.

They are in practice additions to income tax, and a feature of excess profits tax.

The schemes are intended to:

1. Reduce consumer expenditures to avoid inflation.
2. Make a greater reduction than could be made equitably by taxes, at some income levels, by providing credit for part of the tax.
3. Increase savings which will be available to low income groups after the war, and reduce inequality of fortune.
4. Prevent a post-war slump.

It is objected that:

1. The tax may reduce spending at subsistence levels, where spending is not inflationary, and fail to reduce it at higher levels,

⁶⁰ How to Pay for the War, pp. 46, 47.

⁶¹ Bowen, loc. cit.

⁶² Hart, op. cit., p. 163.

⁶³ Burns, op. cit., pp. 40, 41.

where prices can be bid up and where savings can be reduced if it is desired to maintain consumption expenditures.

2. The tax is based on inaccurate assumptions about supply; and it is inadequate for assuring that reduction of spending will occur where resources useful in the war will be released.

3. The tax increases inequality after the war.

4. The credits would be repaid, and further increase demand, at a time when civilian output was small and demand growing after release of wartime restrictions. Thus the situation now to be avoided by the plan would be induced by it later.

5. There is no post-war gain from the plan which taxes would not insure; taxes now would reduce the post-war debt.

[John C. Jackson, Economic Section, Legislative Reference Service, Library of Congress, July 12, 1942.]

EXHIBIT 9

WITHHOLDING TAXES

A withholding tax is a deduction of tax from income at the point where income payment is made. It may be used as the basis of a forced savings scheme.

This discussion considers withholding only as a device for taxation.

There seems to be rather general agreement that some form of withholding tax is desirable, if the Ways and Means Committee hearings are taken to sample opinion. But disagreement begins with consideration of the form, and extends to forecasts of the effects of the tax.

The forms listed in this paper are: Withholding taxes as a method of income tax collection; as an added net income tax; as gross income tax, added to the regular income tax. The characteristics of these levies are (1) certainty of incidence; (2) coincidence of income receipt and tax payment; (3) flexibility.

The disagreement on type of levy is shown to turn on the issue of how the tax load is to be distributed among income levels. The statistics supporting proposals for changing the proportionate distribution of the load are examined. This consideration of equitability of the tax is extended into a comparison of withholding and sales taxes. Withholding also is compared to the sales tax and the regular income tax with reference to (1) restriction of inflationary spending, and (2) shifting of the tax through higher wages, with consequent increase of inflationary pressure.

In discussion of administrative problems, withholding plans now in use, or proposed, for Britain, Canada, and the United States, are outlined. The British plan is to collect tax liability on the preceding year's income; the Canadian proposal is to collect all income tax at source on current income, if income is periodic, and by prompt collection methods for other income; plans for the United States propose taking a part of income tax on current income at source, at the same time that tax liability on the previous year's income continues to be paid as before.

I. TYPES AND BASES OF LEVY

The tax could take several forms:

1. *Applied to present tax on net income.*—It could be used for collecting all or part of existing income taxes; and not add to the tax burden in any case.¹

The total income base of such a tax of course is that of the personal income tax. This has been estimated for 1942 at \$22,500,000,000 for the normal tax (with personal exemptions at \$750 and \$1,500), the base of surtax at \$27,000,000,000.² (The difference is accounted for by the subtraction from income in calculating the base of normal tax of earned-income credit and partially tax-exempt interest.)

2. *Applied as added tax on net income.*—The tax may be an added tax on net income; such a tax might be levied on the same base as the regular income tax; or on income after regular income tax has been deducted; or on income before calculation of the regular income tax; and possibly, in any of these cases, with lower exemptions.³ No estimates of the income bases of such levies have been made. However, methods may be suggested. In the first case listed, the base of the surtax might be taken, and adjustments for changes of exemption be made, if changes are desired. In the second, the amount of revenue derived from revenue effects of taxes in force, or proposed, might be deducted from a base adjusted for changes of exemption; in the third case, the amount taken by specified flat rates of added tax would be deducted from surtax base, and revenue from the surtax be calculated and combined with that of the added tax in order to find how total revenues would be affected by use of this base.

3. *Tax on gross income.*—The tax may be levied on gross income without exemptions;⁴ or on gross income received by persons whose income exceeds an exempt minimum level, as in Canada.⁵ The base of this added tax has not been estimated; but the tax would be deducted in computing income subject to the regular income tax.⁶ Therefore, would bear most heavily on persons in the lower income brackets.

II. CHARACTERISTICS

No matter what base is selected, the tax has several characteristics: with respect to production of revenue and effects on income and spending.

1. *Certainty of incidence.*—As is true of net income taxes, collected in any other way, it is said that the Congress can tell where the burden will fall, and thus can place the burden on the income classes and persons whom it wishes to tax.⁷

2. *Coincidence of income receipt and tax payment.*—Collections are more nearly synchronous with receipt of income than under the income tax as now collected (even with the use of tax anticipation notes).

¹ See Morgenthau, Henry C., and Paul, Randolph E., in U. S. Congress, House Committee on Ways and Means, 1 hearings on revenue revision of 1942, pp. 5, 20, 81, 82.

² Paul, in 2 hearings, cited, p. 1612.

³ Hart, Albert G., Use of Flexible Taxes in Combating Inflation, in American Economic Review, March 1942, 32: 89, 90.

⁴ Lutz, Harley L., A Tax on Gross Income Payments to Individuals, in Tax Institute; Financing the War, 1942, pp. 240-242.

⁵ See Brown, Bryant C., report to the joint committee on internal revenue taxation, British and Canadian Tax Systems, 1941, pp. 55, 56.

⁶ Lutz, op. cit., p. 146.

⁷ Withers, William, Statement for New York Federation of College Teachers, in 1 hearings, cited, p. 590.

This has several aspects:

(a) Funds come into the Treasury 15 to 23 months earlier than under present collection methods.⁸ This may be true if the tax is levied on current earnings; if, however, as in the British system, the tax is on the previous year's earnings, the advantage on this point is less, as it is also on the other points which follow.

(b) The tax may be both more convenient and more closely related to ability to pay than is the same amount of tax collected under present delayed methods. For example, changes of circumstance of the individual who bears the tax may create fewer difficulties of payment. Frequently, now, tax liabilities are not reported or not paid if the taxpayer is out of work when taxes fall due; hence, problems of collection would be diminished.⁹

The device both "facilitates tax collecting and eases the burden of the lump-sum or quarterly payments."¹⁰

(c) The tax raises money at an earlier point in the economic process than does any other, securing funds before they are paid out as income.¹¹

3. *Flexibility*.—Withholding taxes have the advantageous characteristic of flexibility; changes of rates to suit changing conditions can be made almost immediately effective, to increase revenue. And under some proposals,¹² rates can be changed administratively when conditions change, without the delay of writing a new revenue act.

4. *Foregoing characteristics questioned*.—Two questions concerning these characteristics may be noted here, and reserved for later discussion:

(a) The incidence of the tax frequently is questioned;¹³ it is said that imposition of the tax would bring demands for higher wages, thus shifting the tax to consumers and to the Government in form of higher prices for those products whose costs were raised.

(b) Problems of administration have been found, both in social security taxation and in collection at source of income tax (in Britain) to reduce the advantages of coordinating income receipt and tax payment.¹⁴

III. ISSUES IN COLLECTION METHOD VERSUS ADDED TAX

The principal issue involved in the choice between making the tax a collection method or an added tax, and in the choice of gross or net base, is whether it shall be a method of putting a heavier load on the lower-income groups. Coupled with proposals to make withholding take the form of an added tax are other proposals to lower exemption, increase rates in lower brackets, and impose wage ceilings to prevent shifting of tax.

(a) *Proposals for withholding as added tax*.—1. The American Institute of Accountants proposed withholding income tax at source, and

⁸ Cooper, Walter A., Statement for American Institute of Accountants, in 3 hearings, cited, p. 2666.

⁹ *Ibid.*; and Heller, Walter W., Wartime Use of Income Taxes, in Tax Institute, op. cit., p. 203.

¹⁰ Popper, Martin, Statement for the National Lawyers' Guild, in 2 hearings, cited, p. 2302.

¹¹ Leland, Simeon, Income Versus Sales Taxation, in Tax Institute, op. cit., p. 125, Withers, op. cit., p. 592.

¹² See Morgenthau, op. cit., p. 20; Hart, op. cit., pp. 98-102.

¹³ Schieffelin, W. J., Statement for Chamber of Commerce of New York, in 1 hearing cited, p. 235; Seghers, Paul D., Statement for the Federal Tax Forum, in 2 hearings cited, pp. 1958-1959.

¹⁴ Wilder, Harold K., in 3 hearings cited, p. 3364; Wood, Sir Kingsley, budget speech, Financial News April 15, 1942, p. 3.

said that the tax would be more desirable if exemptions were lowered or rates increased, in order to reduce inflationary pressure.¹⁵

2. The Chamber of Commerce of New York proposed withholding as a method of getting money as quickly as possible, but thought adoption of the method unwise until effective wage controls and price controls had been instituted.¹⁶

3. The Chamber of Commerce of the United States proposed a flat 5-percent withholding tax on a base allowing no exemptions, deductions, or credits—and no refunds; but the tax would be deducted from income subject to the regular income tax.¹⁷ The justification of the proposal to apply the tax without exemptions was that the entire Treasury program failed to touch the increase of income over 1936 levels, which increase was said to have gone to families paying no income tax. These constituted 75 percent of the total number of families. And, the Treasury's withholding tax was only a method of collection, exempting 75 percent of total income payments from tax.¹⁸

4. Professor Lutz, in repeating a proposal for a withholding tax on gross incomes, said that its adoption "would have siphoned off more of the surplus purchasing power created by the defense spending than could have been done by any other means", thus serving to prevent inflation.¹⁹

(b) *Arguments against withholding as added tax.*—In direct opposition to the foregoing proposals are statements of other proponents of the use of a withholding tax.

1. It is pointed out that the value of withholding is in facilitating collection and easing the burden of taxes; and that this may constitute a source of real danger to low-income groups:

"We must be ever vigilant to prevent this ease of collection from being used as a lever further to lower personal income tax exemptions or otherwise to impose new burdens on low-income groups."²⁰

2. The Treasury's present position is that withholding should be used only as a method of collection, and that additional burdens should not be placed on low-income groups until every possible source of revenue from those in higher income groups is exhausted. Hence it proposed that withholding taxes on labor income should be levied on a net basis after personal exemption, credits and deductions.²¹

3. The statement above²² that 75 percent of the families in the United States are exempt from income tax and that 75 percent of aggregate income is exempt, suggests that a large part of income is not subject to income tax because a large part of the population is not subject to the tax. A similar view has been stated frequently.²³ The support which it offers to a particular tax policy requires that it be examined.

(a) Separate simple statements of facts, that (1) 75 percent of families and (2) 75 percent of individual income are not subject to

¹⁵ Cooper, *op. cit.*, p. 2666.

¹⁶ Schiefelin, *op. cit.*, p. 235.

¹⁷ The advantage of this Deduction of taxable income would increase as the applicable top bracket rate of tax increased.

¹⁸ Alvord, Ellsworth C., in 3 hearings, cited, pp. 2708, 2713.

¹⁹ In Tax Institute, *op. cit.*, pp. 134, 135.

²⁰ Popper, *op. cit.*, p. 2302.

²¹ Morgenthau, in 1 hearings cited, p. 4-5, 7-8, 28-29; Paul, in 1 hearings cited, pp. 81, 82.

²² In opposition to withholding limited to a method of collection, and in support of a withholding tax imposing higher rates and lower exemptions.

²³ Stolper, Gustav, Newspaper article in 1 hearings, cited, pp. 630-633; Slichter, S. H., interview in Wall Street Journal, November 19, 1941; reprint November 26, 1941, p. 2.

income tax, are not open, in the light of available statistical information, to major objection.

1. The first is in agreement with data ²⁴ which estimate the average 1941 income of an average family (of 3.71 persons) at \$2,362; which estimate that 75 percent of all families received less than \$2,500 in 1941; and is in agreement with the statement that with 1941-42 exemptions, an average size family receiving \$2,300-\$2,360 would be free of income tax.²⁵

2. The second is in substantial agreement with the Treasury estimate of the base of individual income surtax as \$27 billion for 1942.²⁶

(b) The major difficulty with the statement being examined is in the meaning attached to income exempt, the conclusions which are drawn from combining these two statistics, and the facts omitted.

The inference is that a large part of income is exempt, because a large part of the population is exempt; and the policy based on this is that income tax exemptions must be eliminated for this tax, rates of tax on lower income groups be increased by the tax, and a sales tax also be imposed.

1. The seventy-five percent of families who receive incomes of less than \$2,500 per year (average size is about four persons, and they therefore, on the whole, are exempt from present income taxes) receive only 40 percent of all family income; and about 32 percent of total personal income, combining families and single consumers.²⁷

2. The rest of personal income exempt from the income tax is received by single consumers with income less than the exempt minimum ²⁸ and by single persons and family members subject to the income tax, as income free from tax by reason of personal exemptions, deductions, and credits and as tax-exempt interest.

3. The burden of other taxes is so large that the tax system (including 1941 Treasury proposals to the Ways and Means Committee) taken as a whole would not become progressive until an income level of \$3,000 per year were reached.²⁹

(c) A difficulty with respect to the proportion of families exempt, without reference to the proportion of income exempt, was pointed out by Mr. Paul in another connection.³⁰ The average size of family, and average size of family income, do not adequately represent the whole population of families.

As is true of description of any other group of data, deviation from the central tendency must be taken into account.³¹ Variations in size of family, when personal exemptions for a family of two are at their present \$1,500 level, mean that many families receiving less than \$2,362 or \$2,500 will pay an income tax. Of course, it is recognized too that some families of four or more receiving income in excess of the average will pay no income tax.

The principle of the view examined is to substitute total quantity of income subject to income tax, for personal distribution of income, as measure of ability to pay added taxes.

²⁴ Office of Price Administration, in 1 hearings, cited, p. 363.

²⁵ Robertson, Willis, and Paul, Randolph E., in 1 hearings, cited, pp. 102-104.

²⁶ 1 hearings, cited, p. 1612.

²⁷ Office of Price Administration, Estimates of the Consumers' Income in the United States, 1941, June 27, 1942.

²⁸ 26 percent of the number of single consumers, about 6.8 percent of the total number of consumers, receiving 7.7 percent of income of single consumers, and 1.3 percent of total consumer income. O. P. A., *loc. cit.*

²⁹ Henderson, Leon, in U. S. Cong., House Ways and Means Committee, Hearings on Revenue Revision, of 1941, p. 657.

³⁰ In 1 hearings, 1942, cited, p. 104.

³¹ See Fisher, R. A., Statistical Methods for Research Workers, 1938, ch. 1.

(d) Related to this principle is the physical concept of taxing, that each dollar should pay some tax:

* * * Every dollar of income should be taxed either directly and courageously through an income tax, or through the back door by way of a general sales tax. * * * There is no justification for personal exemptions under present circumstances.³²

And Lutz, in bespeaking the deduction from gross income, in calculating net taxable income, of the proposed tax on gross income payments says:

It would be highly improper to deny such a deduction, for the taxpayer would otherwise be obliged to pay heavily graduated rates upon a part of his income which he never saw, nor touched, nor used.³³

This proposes that dollars rather than persons be made the subject of taxation.

IV. EFFECTS OF TAX: EQUITY AND CONTROL OF INFLATION

The consequences to the taxpayer which the proposals discuss may be compared with those of other taxes—for example, the sales tax—which bring in revenue near to the time of income payment.

(a) *Equity*.—With respect to equity, there is no argument as to which way the balance swings. Even a flat rate gross income tax more nearly approaches the accepted concept of equitable taxation (according to ability to pay) than does a general sales tax, which is regressive.

In proposals for extension of at-source collections rather than of sales taxes³⁴ an important consideration of equity is that under a withholding tax on net income a family of four pays less tax than does a family two; under a sales tax they would pay more.³⁵ Withholding levied as a gross income tax has the same results as a sales tax, in this respect.

(b) *Control of inflation*.—The second consequence, though less immediate, certain, and direct, may be as important. How does the tax affect the possibility of inflation and the losses it imposes?

1. A gross income tax collected at source is said to be preferable to inflation as a method of war finance, even for the low-income groups. The reason is that, though it increases their burden, "the tax would tend to set a limit to the deprivation of the low-income group" because the tax is the "most effective safeguard" against rising prices; and "There would be no limit [of deprivation] under inflation."³⁶

2. A withholding tax reduces income before its receipt, not at the time of spending as does a sales tax, and thus has an earlier effect as an inflationary curb.³⁷

3. If the tax were levied at rates which increase progressively as the income bracket increases (or as part of a progressive income tax)

³² Seidman, M. L., Statement for Chamber of Commerce of New York, in 1 Hearings, cited, p. 133.

³³ Op. cit., p. 146. Directly relevant to this is a point mentioned earlier: that a 5 or 10 percent reduction of income on which regular income tax is calculated, to take account of withheld income, has different results for persons at different income levels. Thus, reduction of taxable income to take account of a 10-percent reduction in gross income is more advantageous to a person whose effective rate of income tax is 70 percent than to one whose effective rate is 2 or 3 or 4 percent.

³⁴ Hart, 1 Hearings, cited, p. 699.

³⁵ The Minister of Finance of Canada in proposing such an extension stated that "as regards equity, I am sure we all agree that the income tax on individual is the fairest method of taxation. * * * A person's income is the best single measure of his taxable capacity, particularly when we take into account the number of persons dependent on him." Canada, House of Commons Debates, June 23, 1942, p. 8893.

³⁶ Lutz, op. cit., p. 142.

³⁷ Leland, op. cit., p. 125.

it would enjoy a clear advantage as an inflation control over a sales tax. The reason is that the sales tax takes a smaller part of income the higher the income bracket, while ability to pay a tax without reducing income available for living expenses increases more than in proportion to the increase in size of income. Progressive taxes are for this reason generally considered to bear most nearly in accordance with ability to pay. They also may be most efficient as inflation controls, since, with respect to the sources of inflation, "the chief danger to the low income groups is that those with incomes of, say, \$2,000 to \$10,000 will bid up the prices of consumers' goods. * * *³⁸ To curb inflation through use of a sales tax heavy enough to restrict spending of this group would impose a very heavy burden on low-income groups. The burden would be 1.7 to nearly 4 times as heavy, in relation to income, on the lowest income groups as on those receiving between \$2,000 and \$10,000; thus the greatest burden would be on people whose incomes are so small as to constitute no threat against stable prices.³⁹ A withholding tax at progressive rates or as part of a progressive income tax would put the burden where potentially inflationary income is received, rather than on the lowest incomes.

4. A prompt collection method ought to be compared to the regular income tax as an inflation control. Professor Heller has said:

Collection now on the basis of current income makes the income tax a much sharper weapon of fiscal policy. In a period of rapidly rising prices and increased business activity incomes rise rapidly. To collect currently only the tax which is spawned by the lower incomes and prices of the preceding year is to close the coop after some of the prize chickens have flown. But more than that, our traditional delayed-collection system, in effect, loans the taxpayer his taxes on current income until the succeeding year. If the taxpayer uses that loan to increase current consumption, and particularly if he is forced to resort to borrowing to discharge his tax liability when it eventually falls due, the collection system is a stimulant rather than a sedative to inflation. The remedy is to end such loans by prompt collection techniques.⁴⁰

5. It has been urged that withholding taxes will increase the cost of living in spiral fashion.

(a) *Affirmative*.—1. Without wage ceilings, the tax will lead immediately to higher wages and higher costs of production, which will be pyramided, inflating prices charged consumers.⁴¹

2. Increased wages will increase pressure for higher prices, from the demand side.

(b) *Negative*.—1. Withholding and sales taxes might be assumed to be equally likely to lead to demands for higher wages, if withholding taxes were limited to increased wage taxes. Withholding taxes would differ from income taxes with the present rate and exemption structure, in this respect:

To perform their full stint in preventing inflation, prompt collection methods must be broad in their application. Unless the taxes currently withdrawn apply to the self-employed as well as to the rank and file of laborers, the latter cannot be expected to play the game. If their purchasing power is singled out for extermination or impounding, they will have an added stimulus to use their organized pressure to "administer prices upward" * * *⁴²

³⁸ Shoup, Carl, in Review of Economic Statistics, May 1941, p. 89.

³⁹ See U. S. Treasury, Federal sales taxes, memorandum, in 1 Hearings, cited, p. 352; and Morgenthau, Henry C., op. cit., pp. 4, 5.

⁴⁰ Heller, Walter W., Wartime Use of Income Taxes, in Tax Institute, op. cit., p. 208.

⁴¹ Richmond, Kenneth C., statement for National Retail Drygoods Association, in 1 Hearings, cited, p. 513.

⁴² Heller, op. cit., p. 209.

2. The possibility that higher taxes will lead to higher wages derives in part from the discriminatory effects of the levies, and in part from the fact that "we hold before the public the picture that everybody is entitled to be protected in his standard of living."⁴³

If the tax is only a method of collection, it does not impose a change of relative position and therefore would not increase the pressure toward higher wages and inflation.⁴⁴

V. ADMINISTRATIVE PROBLEMS AND PROPOSALS

In Great Britain, withholding (collection at source) is applied to wages, interest, rents. Tax is collected on a previous period's wages, rather than on current earnings. Recent administrative proposals have suggested changing the length of the collection period (rather than collecting on current earnings), as a means of easing the burden on employees in seasonal occupations or whose employment is irregular.

In Canada, national defence tax has been collected at source. It is proposed that collection at source be extended to all periodic income, as method of collecting increased income taxes and national defence tax; and as basis for a system of compulsory savings.

In the United States, withholding taxes have been used by the Federal Government for tax-free covenant bonds and for income of nonresident aliens; by Philadelphia, for a gross income tax; by New York and other States, "to extract a tax from nonresident employees."⁴⁵ Withholding has been incorporated in the new tax bill, on a net-income basis for wage and salary income, on a gross basis for dividends and bond interest, as means to collect part of the net-income tax. The Treasury has suggested methods of extending the prompt-payment principle to the self-employed and rent receivers. Suggestions to make the tax flexible, and about transition to the new method, have been offered, and are outlined briefly in the discussion of plans for the United States.

(a) *Collection at source in Great Britain.*

1: *Wage earners' income tax.*—Compulsory collection at source was adopted by Great Britain in September 1940 for wages and salaries. Previously, collection at source for tax on this type of income had been voluntary. The employer had deducted the tax payable on January 1 in monthly installments between October and March; and that payable July 1 between April and September. He had not computed the tax; he had served only as collector of the liability stated to him by the agent of the Government who computed the tax. Compulsory collection at source was adopted (when rates were increased) to prevent the tax due in any one month from exceeding the month's salary, which would happen if it were paid in a lump sum by the income receiver.⁴⁶

Under compulsory collection the wage earner still is assessed "in the ordinary way, with the same rights of appeal as other taxpayers" and the employer is "then informed of the amount of tax to be deducted."

⁴³ Hart, in 1 hearings, cited, p. 683.

⁴⁴ Hart, in *American Economic Review*, cited, pp. 88, 89.

⁴⁵ See Heller, *op. cit.*, pp. 210-212.

⁴⁶ Brown, Bryant C. Report to the Joint Committee on Internal Revenue Taxation, British and Canadian tax systems, 1941, pp. 15, 18. Taylor, E. M., and V. M. R. Bayley, *Income Tax, Surtax*, 1940 p. 9.

Assessment is for two 6-month periods ending October 5 and April 5; weekly deductions begin 3 months after the end of each period.

Irregularities of employment, due to seasonal changes of industry and other causes, lead to heavy deductions of tax over a shorter than standard period. And seasonal pay may vary, adding to tax burden because tax assessed on a period of high earnings is collected in a period of lower earnings. A suggestion to alleviate both difficulties is to deduct tax according to current earnings. The suggestion has been rejected on the ground that it would make the employer a tax assessor as well as a tax collector. Further, the calculations required might be so considerable as to make the employer uncertain about what wage he should pay.⁴⁷

To meet the problem of collections, the principal administrative reforms proposed by the Chancellor of the Exchequer were: to raise the lower limit of income from which deduction is made; to level out deductions by making the half-year assessments in seasonal industries on the basis of 5 months during the high-wage period and 7 months during the lower paid season of the year.

The British plan, in which the employer is no more than a collecting agent for a liability that has been determined by the Government, seems to be one method which would forestall an objection on administrative grounds that has been raised against a withholding tax.

The objection has to do with the honesty of collecting and reporting collections on the part of employers, especially in industries in which labor costs are the major part of the total expenses. There are cited judgments filed by the New York State Industrial Commission for delinquencies in unemployment insurance, which amounted to \$113,309.33 within a period of 6 months. And it is stated:

While this situation is serious in itself, it becomes progressively more serious as the possible enactment of a law requiring a withholding tax looms on the horizon. If no effective means have been found to enforce the payment of a tax amounting to 4.3 percent of pay roll direct by the employers and the collection from employees of a 1 percent earnings tax, and its transmission to the Government, it will require little imagination to see just how effective would be the collection of a 10 percent withholding tax. In an industry like the laundry industry, where the pay roll is 60 percent or more of the income dollar, there might well develop a situation in which the employees of the unscrupulous operators might unwittingly furnish the sinews of war for their employers to undermine the entire legitimate laundry field in the greater New York area. Similar situations exist in other industries.⁴⁸

2. *Interest.*—Interest income generally is taxable at source. There are several exceptions: Interest (annual or otherwise) payable to a bank in the United Kingdom; interest (except annual) payable to a discount house or member of the stock exchange; interest payable to a building society, under certain arrangements; interest on certain war loans and other securities.⁴⁹

3. *Rent.*—The tax on an owner's income from property is paid by the tenant and deducted from his next payment of rent.⁵⁰

(b) *Collection at source in Canada.*

"The national defense tax [1941-42] is a tax on the gross income if such gross income exceeds specified amounts." It is collected at

⁴⁷ Wood, Sir Kingsley, budget speech, in *Financial News*, April 15, 1942, p. 3.

⁴⁸ Wilder, Harold K., in 3 hearings, cited, pp. 3364, 3366.

⁴⁹ Taylor and Bayley, *op. cit.*, p. 10.

⁵⁰ *Ibid.*, p. 8.

source of income on all salaries and wages of persons subject to the general income tax and investment income surtax. It is not deducted at source for income other than from wages and salaries. It is an additional tax, rather than a method of collection.

It has been proposed in the current budget that the device of withholding be extended into a system of forced savings, to include the regular income tax at increased rates, and the defense tax. Quarterly reporting and payment of income tax by the self-employed, are required by the proposal. This apparently is the widest extension yet made of the withholding principle—apparently justified by the experience of a country that has practiced the withholding of income taxes. If the plan works well, it will argue against the objections on administrative grounds quoted below:

Under American conditions, a plan for the collection of tax at source presents great complications. Such a plan was in operation in the United States in the early years of the income tax but was quickly abandoned. The foreign experience to which reference is commonly made has for the most part been the collection at source of tax on last year's income, not the tax on this year's income. Problems of personal exemption, deductions, and credit are difficult to solve. Such a tax could in any event apply only to the flat rate normal tax and minimum rate surtax and not to a progressive rate surtax.⁵¹

(c) *Withholding tax proposed for the United States.*

1. *Treasury proposals.*—(a) The method of operating a withholding tax proposed by the Treasury was stated by Mr. Paul as follows:

Tax would be withheld at the source upon wages, salaries, corporation dividends, and corporation bond interest. With respect to wages and salaries, the withholding would be on a net basis. The tax would be withheld only upon the excess of wages and salaries over the taxpayer's personal exemption, credit for dependents, and a fixed percentage of such exemption and credit representing an average allowance for deductions.

The amounts thus relieved of the withholding requirement would be broken down by pay-roll periods, so that the employer would know how much to deduct if the employee is paid by the week, by the month, or by any other period.

The employee would be required to file with his employer an exemption certificate supplying information on his family status.

The great majority of domestic employees and part-time hourly employees earning small sums with respect to which it would be impracticable to apply a withholding system would thus be removed from the scope of the proposed system.

The employer would remit quarterly to the Treasury the amount withheld. He would also at the end of the year, or upon termination of employment, give the employee a receipt for the amount of tax withheld.

Tax liability against the full income including amounts withheld would be computed at the end of the year. The tax due where applicable rates were in excess of the withholding rate would then be paid. Or, if tax liability were less than the tax paid, refund would be made by the Government.

With respect to dividends and bond interest, the withholding would be on a gross basis, but at the same rate as for wages and salaries. Withholding on a net basis is impracticable because an individual may own stocks and bonds in many corporations.⁵²

Withholding is intended as a method of collection, of prepayment, of a part of income tax liability, and not as an added tax.

(b) A transition problem appears in the first year of collection at source if only a part of tax is withheld. The Canadian proposal

⁵¹ Blough, Roy, in National Tax Association, Proceedings 1941, p. 347.

⁵² Paul, Randolph E., in 1 hearings, cited, pp. 81, 82.

largely eliminates this problem. But in the United States, collection at source in 1943 would bear on 1943 income; and collection of liability on 1942 incomes also would be made. To ease the payment problem, gradual transition to withholding has been suggested by the Treasury.

The Treasury * * * recommends that the transition be spread over the 2 years 1943 and 1944 by permitting half of the amount withheld at source in 1943 to be credited against the quarterly installments on 1942 taxes payable in 1943. The balance of the amount collected at source would be credited against 1943 taxes payable in 1944.

Under this proposal, the taxpayer would be permitted to credit against his March 15, 1943, installment on 1943 taxes half of the amounts withheld at source during January and February 1943; against his June 15 installment half of the amounts withheld during March, April, and May; against his September 15 installment half of the amounts withheld during September, October, and November.

Under this plan slightly more than half of the total amount withheld at source during 1943 would be available in March, 1944, as a credit against 1943 income tax liabilities. * * * 53

(c) The principal objection to withholding, on administrative grounds, is that the Government would be unable to enforce the same method of collection on agricultural labor, professional people, and self-employers; the wage earner therefore would be subjected to unfair discrimination.⁵⁴

Methods of prompt payment have been suggested for incomes not adapted to withholding.

For example, Heller proposes that receivers of such incomes be required under threat of heavy penalties to buy in advance tax stamps or anticipation notes to a value of around three-quarters of their tax liability.⁵⁵

Mr. Paul proposed to the Ways and Means Committee a method of reducing the advantage which self-employed businessmen and recipients of rents, for example, derive through securing postponement of 1943 tax liability to 1944 at the time when other incomes are subject to taxes in 1943 on 1943 income.

Persons with incomes that are and those with incomes that are not subject to withholding can be put on an approximate parity by requiring all taxpayers to pay a part of their 1942 tax liabilities payable in 1943 in one lump sum in March rather than in quarterly installments. The lump-sum payment required would correspond to the amount withheld at source from persons subject to withholding. Those subject to withholding would be able to pay this amount in the form of a credit for taxes withheld at source; those not subject to withholding would have to pay this amount in cash, thereby reducing the amount of tax postponed.

He suggested that, since withholding will take 5 percent of current year taxable income in 1943, all persons pay on March 15, 1944, 5 percent of surtax net income, plus "one-fourth of the balance of their tax liabilities on 1943 income"; the payment would be through credit for amounts already withheld, for those subject to withholding; and/or in cash.⁵⁶

2. *House bill.*—The provisions of the recently introduced House bill (H. R. 7378) with respect to withholding are summarized and explained in the Ways and Means Committee report.

⁵³ Paul, Randolph E., in Prentice-Hall, *Federal Tax Service*, op. cit., p. 60, 474.

⁵⁴ Sullivan, John L., U. S. Cong., House Committee on Ways and Means, *Hearings on Revenue Revision of 1941*, p. 63.

⁵⁵ Op. cit., p. 218.

⁵⁶ Paul, Randolph E., in Prentice-Hall *Federal Tax Service*, Report No. 30, June 25, 1942, pp. 60, 474.

Beginning January 1, 1943, the withholding rate on current income will be 5 percent, and beginning January 1, 1944, the rate will be 10 percent. In the case of wages and salaries, a withholding deduction will be allowed according to whether the taxpayer is single, married, or the head of a family, and has dependents; and the tax will be deducted at the withholding rate on amounts in excess of the withholding deduction by the employer on each pay day. No deductions are allowable with respect to dividends or bond interest, the withholding rate being applicable to the gross dividend or interest paid * * *.

The taxpayer will furnish to his employer a statement as to whether he is single, married and living with wife or husband, the head of a family, and has dependents. The Treasury will furnish the employer with a table which shows the amount of wages that will be exempt from withholding * * *.

The difference between the employee's wage per pay period and the corresponding exempt amounts shown in the table will be subject to deduction at the source.

Credit will be allowed against the income tax for 1943, payable in 1944, of the 5 percent withheld in 1943. The 10 percent withheld in 1944 will be allowed as a credit against the income tax for 1944, payable in 1945. If the tax withheld at the source is more than the tax due from the taxpayer on the basis of his return for that year refund will be made. If the taxpayer shows his gross income for the year will not be in excess of the personal exemption and credit for dependents to which he is entitled his income payments will be exempt from withholding.⁵⁷

To reduce the relative advantage gained by the self-employed and rent receivers, in having their tax liability on 1943 income postponed until 1944—

It is provided that the taxpayer may continue to pay in four installments, but the first installment shall be 10 percent of his surtax net income plus one-fourth of the balance of the tax after deduction of such 10 percent. The remainder of the tax is payable in three equal installments. Thus, the taxpayer will to this extent be put on the same footing as the taxpayer subject to collection at the source on wages.⁵⁸

3. *Tax-free covenant bond interest.*—Another problem is that of tax-free covenant bonds. The railroads claim that if interest on such bonds were withheld at source, the railroads would have to pay the full tax interest, "without the right to deduct amounts so withheld from payments made to the obligees." They therefore ask exemption from the tax.⁵⁹

4. *Flexible rates.*—An administrative proposal designed to eliminate one of the most serious objections against income tax is that the rates be flexible. The Treasury proposed in March that it be allowed to collect at source each pay day from 1 to 10 percent of income, the percentage to vary at the Secretary's discretion with changes in the economic situation.⁶⁰

Professor Hart has criticized this proposal, saying that flexibility is useless when rates are so low that they would not come near meeting the needs for revenue and inflation control. He has proposed variation of rates according to a price index; but raises the effective objection that the tax rate would have to be tied to the relation of wages to prices in order to eliminate inflationary pressure. He also has

⁵⁷ U. S. Cong., House revenue bill of 1942, Rept. No. 2333, pp. 15, 16.

⁵⁸ *Ibid.*, p. 17.

⁵⁹ Fletcher, R. V., Statement for Association of American Railroads in 2 Hearings, cited, p. 1813. The House bill provides this exemption, Rept. No. 2333, cited, p. 126.

⁶⁰ Morgenthau, Henry C., in 4 Hearings, cited, pp. 5, 20.

suggested adoption of the principle of the Tydings committee proposal to tie tax rates to Government expenditures. "The Treasury could be required to set a defense tax rate for the oncoming 3-month period which would bring total receipts up to any specified percentage of total outlays for the period. It would be possible also to provide for automatic lowering of exemptions to widen the tax base if necessary.⁶¹

[John C. Jackson, Economic Section, Legislative Reference Service, Library of Congress, July 17, 1942.]

EXHIBIT 10

THE WORK OF THE BOARD OF REFEREES UNDER THE EXCESS PROFITS TAX ACT, 1940

Address delivered by Hon. Mr. Justice Harrison before the Ontario Division of the Canadian Bar Association, at Toronto, February 21, 1942

I am to address you for a few minutes in respect to the work of the Board of Referees under the Excess Profits Tax Act, 1940.

I am not here to discuss the merits of the act or its demerits, if any; these are matters for the consideration of our legislators in the Parliament of Canada.

I have read Lord Hewart's *New Despotism* and, like all lawyers, find myself very much in agreement with him in his objections to the encroachments of bureaucracy upon the functions of the courts.

Now, owing to the exigency of war, I find myself caught up and serving on one of the numerous administrative bodies created to assist the Government in its increasing control of our business and economic life.

I shall have a word to say upon this matter of administrative law in general and the position of the Board of Referees in reference to the courts at the end of this paper. But first of all I wish to give a short explanation of the purpose and effect of the Excess Profits Tax Act.

Excess Profits Tax Acts in general.—Underlying the enactment of excess-profits taxes are the assumptions that, in wartime, business profits will increase, that Government revenue needs will grow, and that the public will demand that the profits—whether fortuitous or excessive and whether or not arising directly out of contracts for munitions—should be taken out of war.

Before any excess-profits tax act can be written, there has to be a clear-cut decision as to exactly what profits are to be specially taxed.

Approaches to excess-profits taxation.—One approach is that any increase in profits in wartime should be specially taxed. The other is that all profits in excess of specified rates of return on capital should be progressively taxed. The differences between these two approaches are fundamental. One, which we may term the average earnings basis, is founded on previous earning power. It simply assumes that the pre-war profits were a reasonable criterion of earning power, irrespective of the rate of return that was earned on the capital employed and that any wartime increase or excess above the pre-war profits should be heavily taxed.

⁶¹ American Economic Review, cited, p. 100; and 1 Hearings, cited, p. 600.

The other method, the invested capital basis, fixes a basic rate of return on capital which is deemed socially fair and taxes all profits over such rate progressively. It differs from the average earnings basis which recognizes that rates of return on capital employed in business are rarely uniform but reflect the difference in investment risks, management factors, capital structures, economic environment, and a host of other influences which make a uniform rate of return upon capital entirely unfair and discriminatory.

Canadian excess-profits tax legislation.—In Canada the choice of the average earnings base has now been made and the standard profit is the average earnings in the years 1936 to 1939.

The invested capital basis has, however, been retained to establish certain limitations upon the standard profits which may be awarded to depressed taxpayers. The minimum award is 5 percent and the maximum award 10 percent upon the employed capital.

The present E. P. T. Act is applicable to sole proprietorships, partnerships, and corporations, subject to certain exemptions, but my references will be confined entirely to its incidence upon individual corporations.

The act levies a tax of 75 percent on the calendar year profits, earned on and after January 1, 1940, which were in excess of the average annual profits in the calendar years 1936–39 less a deduction for the ordinary 18 percent corporation tax. It is provided, however, that if this tax amounts to less than 22 percent of the total profits, the greater tax of 22 percent will be imposed.

In effect a Canadian corporation is subject to the greater of a tax of 22 percent on total profits or a net tax of 61½ percent on profits in excess of those earned in the standard period. Adding the 18 percent ordinary income tax the total tax rate can vary between a minimum of 40 percent and a near maximum of 79½ percent with a high rate of progression to the upper level as excess profits grow.

Functions of the Board of Referees.—The Excess Profits Tax Act had to be written on the assumption that there was uniformity in business experience in 1936–39 and that the average annual profits in that period were a fair gage of pre-war earning power.

It is a matter of common observation, however, that the recovery from depression was not uniform even among members of the same industry.

For some depressed cases the statutory provision of a \$5,000 minimum of standard profits was adequate to assure a just base. For others the exclusion of a loss year or the abnormally low profits of one year in calculating the standard was sufficient. Where neither of these provisions met the need the Board of Referees was empowered to recommend the raising of the actual standard profits to a level which would correct or at least compensate in part for their special disabilities.

The Board of Referees has been appointed to deal with situations where no record of standard profits is available or where they were so low that it would not be just to tax the resulting excess without providing some relief. In other words, the Board has to set standard profits for new businesses and for depressed businesses.

Eligibility of standard profit claims.—The decision whether a business is new or depressed rests primarily with the Minister of National Revenue.

The claims from established businesses that come before the Board of Referees are those where the Minister is not satisfied that the business of the taxpayer was depressed or is not satisfied that the standard profits claimed are fair and reasonable.

All new businesses—that is, businesses started after December 31, 1937—must go to the Board of Referees to have their standard profits ascertained.

Right of taxpayer to be heard by the Board of Referees.—Just herein an interesting legal question arises as to the right of a taxpayer to come before the Board. You will note that section 5—the operative section in respect to the Board of Referees—provides that a taxpayer who is convinced that his standard profits, ascertained in the ordinary way, are so low that it would not be just to determine his liability to the tax by reference thereto, may compute his own standard profits as such amount as he thinks just, but not exceeding an amount equal to interest at 10 percent per annum on his employed capital. His claim then goes before the Minister and, according to the express wording of the act, the Minister has two alternatives—he may agree with the computation of the taxpayer or, if he is not satisfied that the taxpayer was depressed or if he is not satisfied that the standard profits as computed by the taxpayer are fair and reasonable, he “may” direct that the standard profits be ascertained by the Board of Referees. Those are the only express provisions in the act.

It has been suggested that when imposing a duty upon a Minister of the Crown it is not proper to use the word “shall” and that the word “may,” in appropriate cases, can always be interpreted as imperative or mandatory. As you know, there are numerous authorities upon this matter—in particular the case of *Julius v. The Bishop of Oxford* (5 App. Cas. 214) wherein it is stated—

when a statute confers an authority to do a judicial act in a certain case it is imperative on those so authorized to exercise the authority when the case arises and its exercise is duly applied for by a party interested and having the right to make the application.

It could be said that the act of the Minister in referring a claim to the Board of Referees is judicial since the Board acts judicially and their recommendation becomes the act of the Minister by his approval. Other cases dealing with the matter are *Fonseca v. Schultz* (7 Man. R. 458) and in re *North Huron Election 58* (O. L. R. 197) in *Supervisors v. U. S.* (71 U. S. R. 435), decided by the Supreme Court of the United States it is stated—

whenever public interest or individual rights call for the exercise of power given to public officers the language used, though permissive in form is, in fact, peremptory. What they are empowered to do for a third person, the law requires shall be done. The power is given not for their benefit but for his.

As to new companies.—Our duties in respect to new companies are specifically laid down in subsection 2 of section 5 of the act, namely, to ascertain the standard profits at such an amount as the Board thinks just, being an amount equal to a return on the capital employed of the applicant “at the rate earned by taxpayers during the standard period in similar circumstances engaged in the same or an analogous class of business.”

In reference to new companies it is further of interest to note that any company which increases its capital to the extent of 33½ percent

after the beginning of its last fiscal period in the standard period and also issues capital stock for such increase may apply as a new company and have its profits ascertained by the Board of Referees in the same way as other new companies, namely at the rate of return on capital earned by companies in the same business in the standard period—such companies, however, to be selected by the Board of Referees in their sole discretion and their rate of return adjusted, if necessary, to insure “similar circumstances” for the taxpayers selected and so get a comparison of like with like.

In the case of new companies the limitation of 10 percent on capital does not apply.

Depressed companies.—The second class of cases dealt with by the Board is that of taxpayers who claim their business was depressed in the standard period.

What does depression mean.—In the first place the Board considers that, generally speaking and with few exceptions, any business which did not earn 5 percent on its employed capital during the standard period was depressed. This we think is a fair implication from the provisions that all depressed taxpayers are entitled to a minimum award of 5 percent upon their capital. There may be certain types of companies which never have earned and never contemplate earning as much as 5 percent upon their capital. In such a case the Board is expressly given the power to leave the taxpayer with his own average yearly profits. What we cannot do is to award any amount less than 5 percent, if we desire to award a different rate from that actually earned by the taxpayer. But how are we to measure the depression of a particular company? Various measures of depression could be taken. For example, one businessman might consider himself depressed if his average net profits in 1936–39 were less than in the boom year of 1929. Thus prior performance would be the test of depression.

Another might contend that he was depressed if he failed to net as much as his competitor. In this case comparative performance would be the test.

Still another might feel he was depressed if he did not net his customary 5 percent on sales. This would be an inherent or absolute test.

It became evident very early that the Board would be confronted with a wide variety of claims and that a study of profits behavior and earnings rates in various industries might produce some helpful conclusions. The Board, therefore, had a large number of statistical studies made.

It is beyond the scope of my remarks today even to outline the results of the researches into business results from 1925 to 1939. They have not given the Board any generalized rules of thumb which can be universally applied to the claims coming before it. On the other hand they have provided a helpful and fairly lengthy record of business experience and have emphasized the differences, rather than the similarities, in the individual businesses which constitute an industry—a fact which is frequently overlooked.

Our studies failed to provide any single simple test for depression and they provided no general mathematical formula for ascertaining standard profits. What they did do was to indicate the limitations of generalizations when applied to business and to lead to the conclusion that the administration of the Excess Profits Tax Act would best be

served by considering each claim on its own merits rather than as part of a uniform industry.

The act suggested a comparative test and recourse to the earnings of competitors as a basis for judgment.

In this connection the Board has more than one alternative. The test need not necessarily be whether the applicant company earned the same rate on capital as its competitors. The more accurate test would be as to whether the applicant's position relative to his competitors' in the matter of earnings over a period of years had deteriorated in the standard period.

The Board has come to the opinion that no uniform rate of return upon capital can be ascertained for any industry which would do justice to the diversified circumstances of all members of such industry.

Ascertaining standard profits.—The aim of the Board is to give to each applicant a rate of standard profits which he might have earned during the standard period had he not suffered from special disabilities, whether those disabilities were common to the industry in which he was engaged or peculiar to himself, and provided that those disabilities could not be considered permanent disabilities.

In arriving at the rate for the individual companies the individual experience of the company is the chief factor in determining the standard profits.

Some questions to be considered are—

What did the company earn during the prosperous period of its business?

What percentage of the profits earned in the prosperous period should the company be expected to have earned in the standard period?

While the Board tries to estimate the earnings which the company would have earned in the standard period if special disabilities were removed, there are some considerations, often put forward, which, while important to the owners of the business appear to have little, if any, relevance in ascertaining standard profits under the act:

For instance:

1. The claim to recoup out of profits the amounts necessary to compensate for past lean years and possible future lean years. (The Board does have regard to the fact that some types of business are extra hazardous and may be classed as "feast and famine" businesses.)

2. The claim that certain types of business are entitled to a certain rate of return regardless of past earning experience.

3. The claim for increased standard profits because heavy borrowings or heavy inventories make it difficult to raise money to pay taxes.

4. The claim to have sufficient profit, after taxes, to pay fixed or customary dividends or debt repayment obligations.

In hearings which are conducted each week the Board discusses claims with taxpayers and in the light of their representations and the Board's own experience and judgment endeavor to reach a conclusion as to a fair and reasonable base for the calculation of excess profits.

Section 5 (3) where capital standard not applicable.—The most difficult provision to administer is subsection 5 (3), added during the 1941 session of Parliament. That subsection was inserted to enable

the Board to award a standard profit where a standard profit limited to a certain return upon capital would not do justice. There are three classes of companies which can be dealt with under this section, namely:

1. Companies carrying on a business of a personal service nature where capital is not an important factor.

2. Companies, the capital of which through losses has become abnormally impaired, so that the limitation of 10 percent upon the actual capital left would be far below the actual earning power of the company.

3. Companies of which the capital employed due to extraordinary circumstances is abnormally low.

Just a word or two regarding these three classes. In the first place as to companies where capital is not an important factor. Capital is defined in the act as equity capital, i. e., assets less liabilities—but in this section there is strong ground for argument that the context requires a broad meaning for the word "capital." The businesses intended to be covered are those like fire insurance, brokers, real estate agents, and other service types of business where it is apparent that no plant is necessary in order to carry on the business nor any considerable amount of working capital. In businesses of that kind to limit the standard profit to 10 percent of the capital would not be realistic. In such cases the Board looks at the earning power of such taxpayers in their profitable period as compared with the standard period.

The second class of company is that where capital has become impaired. There are companies which have no equity capital—their liabilities together with the depreciation as calculated by the Income Tax Department exceed their assets. Obviously no capital standard is possible. In such case, again, the Board looks at earning power.

As to the third class, where capital is abnormally low, one test which may be applied is to compare the capital employed with that of other companies engaged in the same kind of business. If the ratio of capital to the gross sales or turnover in the case of the applicant is very much less than that of others engaged in the same business, there is ground for a finding that the capital is abnormally low.

Unless section 5 (3) is rigidly administered it can be abused and the Board has been loath to consider claims under it unless they conformed to the strict requirements of the subsection and unless they could not be justly and realistically treated under section 5 (1).

The Board has not endeavored to classify rigidly these businesses in which capital is not a material factor in the earning of profits nor has it attempted to define abnormal impairment of capital or abnormally low capital due to extraordinary circumstances.

In determining conditions for eligibility under section 5 (3) the Board has insisted that lowness of capital is a primary requirement. Unless this condition is met, representations that disposition of the claim under section 5 (1) "would result in the imposition of excessive taxation amounting to unjustifiable hardship or extreme discrimination or would jeopardize the continuation of the business of the taxpayer," have not been considered adequate per se to make a claim eligible under section 5 (3).

In ascertaining standard profits under section 5 (3) the Board has followed as far as possible the procedure adopted in the administration of the other sections. On the basis of the facts presented in indi-

vidual claims it has attempted to make realistic awards, having regard to the general limitations in the act.

Regarding the position of the Board of Referees in relation to the courts our work is a part of what has been termed "administrative law."

The principal objections to administrative boards in general are:

1. That decisions affecting rights or liabilities of subjects are made by unidentified department officials who have no responsibility except to official superiors.

This cannot be said of the Board of Referees.

We are not Department officials, but an entirely independent body who receive no instructions from the Government or any Minister as to the use of our powers under The Act.

2. That there is no oral hearing and no opportunity for parties to put forward their case. As to this point, every taxpayer, whose claim has been referred to the Board, is given an opportunity of presenting his claim before the Board. Moreover, the applicant can bring with him his legal adviser, his accountant or anyone else to assist him. The Board employs no counsel, as the hearing is essentially a factual one, but the Board is ready to listen to all arguments that may be made either upon the principles applicable to the claim or the interpretation of the act.

3. That proceedings are not held in public. As to that, the lack of publicity of the hearing is entirely for the protection of the applicant, who, in order to make his claim, must disclose the particulars of his business and it is his privilege to keep the details of his business from the public and to be assured that his communications to the Board will be considered as confidential as his income tax return.

It is provided that when the Minister approves the recommendations of the Board his decisions are final and conclusive. Large powers of discretion are given to the Board. This means that any finding based on discretion cannot be challenged in the courts.

The reasons for the existence of such a Board are mainly that the actual awards made must in the nature of things be largely discretionary and are not capable of being dealt with, except in a very broad way, upon any fixed and rigid rules. The decisions are not such as a legal tribunal is qualified to make. A court administers law according to certain defined principles and is not asked to make discretionary awards—that is properly an administrative function—and since no Minister can personally deal with all such problems it is a reasonable solution that he should be assisted by some body specially charged with such work. The position of boards such as the Board of Referees has been discussed in several cases both in the House of Lords and in the Judicial Committee. Thus in *Board of Education v. Rice* (1911) A. C. 179, Lord Loreburn stated that the Board of Education in making its decisions must act in good faith and fairly listen to both sides. In *Local Government Board v. Arlidge* (1915) A. C. 120, Lord Shaw said, "That the judiciary should presume to impose its own methods on administrative or executive officers is a usurpation." In that case Arlidge's house was ordered to be torn down and on appeal to the local government board, Arlidge was refused the oppor-

tunity of seeing the report which the inspector, after an inquiry, had made to the board, and was not heard on the appeal, though he did have the opportunity of appearing and stating his case at the public enquiry held by the inspector. Viscount Haldane said of the board:

When Parliament entrusts it with judicial duties, Parliament must be taken, in the absence of any declaration to the contrary, to have intended it to follow the procedure which is its own, and is necessary if it is to be capable of doing its work efficiently.

An examination of the authorities shows, however, that there are certain limitations upon the powers of all administrative tribunals.

1. They must keep within the confines of the statutes creating them.
2. They must observe natural justice, meaning thereby honest decisions made after hearing the parties.
3. They must have some relevant evidence on which to base their decisions.

There are also two other important limiting factors, namely: Public opinion and the power of the legislature.

Finally there is the limitation self-imposed by the personnel of the Board. Lord Hewart himself said in *Rev v. Minister of Health* (1925) 2 K. B. 363—

Local authorities are vested with great powers because in practice they show themselves to be worthy of them and their discretion is not likely to be diminished in any degree whatsoever.

The decisions of the Board of Referees are almost entirely decisions involving matters of discretion. There is seldom any dispute as to the facts, which are ascertained from the taxpayer's own income-tax returns plus statements made in his application or before the Board.

Again all decisions made by the Board of Referees either leave the taxpayer under the general provisions of the act, with its maximum and minimum provisions or, if any change is made in his position, it is a change by way of improving that position. The Board thus does harm to no one—the only objection there can be to the Board's decisions is that they do not give as much improvement as the taxpayer would like. Essentially, therefore, the Board is a benefit-conferring body.

In conclusion I would say that the Board considers its duty, subject only to the limits expressed in the act, to be the equalization of the base of taxation so that all taxpayers may feel that their standard profits represent an amount that was actually earned or could have been earned in 1936-39.

The resulting rate of total taxation—whether it is 40 or 79 percent—is a consequence of the acceleration of profits in wartime. It is obvious that these consequences cannot be equalized by setting a uniform tax rate and, even though the consequences might in the long run turn out to be undesirable, the effect and intent of the law is clearly to levy taxes at a higher rate as profits increase.

For the most part the Board excludes references to wartime profits as a criterion of earning power in the standard period. It is willing to examine the record up to the end of 1939 but not beyond whenever it can be avoided. Likewise, it has resisted all claims for sliding scale or variable standard profits which would rise and fall with production

or profits. Its recommendations of standard profits when approved by the Minister are fixed and invariable for the duration of the act.

The Board considers that it is fulfilling its duty and is acting on logical and legal grounds when it uses its best efforts to make sure that a claimant is neither better nor worse off, as far as his tax base is concerned, than the majority of taxpayers who must rely upon their actual standard profits in the years 1936-39 as their base.

EXHIBIT 11

OPERATION NATIONAL DEFENSE TAX

The national defense tax is computed on the general income tax return filed March 31. Deductions allowable for purposes of computing net income for general income tax will reduce income for purposes of the national defense tax, except that deductions for donations to charitable organizations and the superannuation fund deductions are not allowable. If, for example, an individual receiving salary subject to deduction of the national defense tax has other business which showed a net loss the amount of such loss is credited against his defense tax liability on his general income tax return to the extent of such liability. Such allowable deductions may wipe out the whole of the defense tax liability and the amount deducted at the source would be refunded. The national defense tax, therefore, is levied on a net income basis; and an individual having sufficient allowable deductions for purposes of the general income tax to equal his wage or salary, although having defense tax deducted at the source, would receive refund when he makes his annual income tax return.

A copy of the general income tax return showing the final computation of the national defense tax is shown on page 142.

EXHIBIT E.—CANADIAN DEFENSE TAX

For use of individuals other than farmers and ranchers.
Affix postage to communications and stamps to cheques.

T 1-1941

Key No. _____ Canceled by _____
Code _____
No. of Dependents _____
(Items 11, 12 and 13)

**DOMINION OF CANADA
INCOME TAX**

Date
rec'd
by
Insp.

RETURN FOR THE YEAR ENDED 31st DECEMBER, 1941

(Form prescribed and authorized by the Minister of National Revenue)

Prepare in triplicate and deliver, or mail, postpaid, two copies on or before 31st March, 1942 (except in the case of a taxpayer in business whose fiscal period ends in December, 1941, when the date is 30th April, 1942) to the Inspector of Income Tax

1. Name (Surname) **NAME IN BLOCK LETTERS** (Christian names in full) 2. Occupation _____
3. Address of present residence (Number and Street) (City, Town or Municipality must be given) (County) (Province) _____
4. Place of residence during 1940 _____
5. Employer's name (1941) _____ Where? _____
6. Year last return filed? _____
7. If in business (a) Firm name _____ (b) Partners' names _____

8. Married _____ Name of wife _____ Any marital change during 1941? _____
Single _____ As at 31st Dec. 1941 _____
Was your wife living in Canada in 1941? _____ If not, where? _____

9. If unmarried or widow(er) supporting dependent relative(s) in your self-contained domestic establishment **Complete Item 47.**

10. His wife's husband filed 1941 return? _____ Was his total income over \$600? _____ Was N.D. Tax deducted on total income? _____
\$750? _____ (Yes or no)

11. Your own dependent children during 1941 12. Wholly dependent grandchildren during 1941
(a) Under 21 years (number) _____ (a) Under 21 years (number) _____ (ages) _____
(b) 21 years of age or over dependent on account of mental or physical infirmity (number) _____ (b) 21 years of age or over dependent on account of mental or physical infirmity (number) _____

13. State number of (a) dependent brothers or sisters under 21 _____, (b) parents, grandparents, brothers or sisters 21 years of age or over, dependent on account of mental or physical infirmity _____ (For Claims under Item 13 (a) and (b) complete Item 48)

14. Did you, in 1941, transfer any property, securities or cash to (a) wife or husband (excluding living expenses)? _____ (If yes, attach particulars)
(b) other persons in the aggregate exceeding the exemptions in Item 36? _____ (If yes, attach particulars and complete Item 46)

15. **NOTE**—Did you receive income from sources within the United States for or on account of (a) yourself? _____ (b) any other person resident in Canada? _____ (c) any other person not resident in Canada? _____ If (c) answered "Yes" then file Canadian Form UST-1 and United States Form 1042 (obtainable in Inspector's office) on or before 15th June, 1942.

16. I HEREBY CERTIFY that I have, in this my Income Tax Return for the year 1941, made a full and complete disclosure of my total income from all sources, that the information given herein and the statements of all income and expenditure herein and all statements and information contained herein and in any statements or documents furnished herewith and those pertaining to dependents and gifts made during the year are true in every respect and that all expenditures claimed were actually incurred and that salary and bonus increases have been disclosed as required. Further all taxes deductible at the source in respect of interest, Rentals and Royalties paid to persons abroad have been deducted and remitted to the Inspector. Phone: _____

Date _____ 1942 Bus _____ Res _____ Signature _____

COMPUTATION OF TAX		TAXPAYER'S USE	DEPARTMENTAL USE	
		\$	\$	c.
17. A.	Total Income (See Item 29A)			
B.	Deductions (See Item 45)			
C.	NET INCOME			
LESS D.	1941 donations to charitable organizations (List in duplicate with receipts) See Item 37.			
E.	TAXABLE INCOME			
LESS F.	Exemption, \$750 or \$1,500 (See Item 33)			
G.	(1) Dependent allowance—Items 11 and 12	\$400 each		
	(2) Item 13	Amount actually expended		
H.	NET TAXABLE INCOME			
J.	General Tax (See Item 30)			
K.	Sur-tax (See Item 31)			
L.	GENERAL TAX PAYABLE			
NATIONAL DEFENCE TAX (See Item 32)				
M.	Income shown in Item 17C			
N.	ADD Superannuation Deduction (Item 19(a))			
O.	Income for purposes of National Defence Tax			
P.	Tax on Item 17-O of 3 1/2% or 5% (See Item 32)			
Q.	LESS allowance for			
	Canada, British Empire or U.S.A. @ \$14 each. \$			
R.	N.D. Tax deducted at source. (Item 29B)			
S.	National Defence Tax (Item 17P) less Credits (Items 17Q and R) \$			
T.	ADD Additional Tax where Item 17S is \$25 or over. (See Item 32) \$			
U.	Amount of National Defence Tax Payable			
V.	Dominion Tax, including National Defence Tax (Items 17L + U)			
W.	LESS applicable portion of British and United States Income Tax			
X.			
Y.	Penalty for late filing, 5% of Net Tax Payable (Item 17X)			
18.	Dominion Tax Payable			

PAYMENT herewith by cheque payable to the Receiver General of Canada \$ _____ See Item 34
AFFIX REVENUE STAMPS (For Gift Tax payment see Item 46)

1940-T 6-1 No. _____ 1941-T 6-1 No. _____ Date _____ 194 Assessor I.O. _____ H.O. _____ **1941**