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## FEDERAL INCOME TAX.

The announcement at Ottawa a few days ago, that preparations are under way for the inauguration of a Dominion income tax next year, was probably made at this time as a complement to the conscription proposals. Apart from this, however, there is good reason for announcing so radical a departure in Canadian finance well in advance, since its inauguration involves not only the preparation of a complicated Act of Parliament, but also the establishment of an extensive organisation and machinery for collection. So that the period intervening until the presentation of the next Budget will be none too long for the work involved. This tax will undoubtedly be a permanent one, supplanting the Excess Profits Tax, which was only a three-year war measure, and developing, with customs duties, into the mainstay of our *post-bellum* finance, with its immense requirements for interest on the Dominion debt, and pensions. It is therefore essential that the new tax should be started off upon right and fair principles. When properly applied, an income tax is possibly the most effective means ever devised for raising taxation equitably and freely; improperly applied, it easily becomes an instrument of iniquitous unfairness.

In this connection, Canada has a very great advantage. There is the experience to draw upon of both Great Britain, the home of income tax, and the United States, besides the history of lesser experiments elsewhere. Doubtless, Sir Thomas White and those working with him on this problem will study closely experience in regard to income tax in both countries, with a view to the application of the best principles suitable to Canadian conditions. In any event there can be no excuse for not making a good start and utilising the results of the best experience and practise elsewhere. Obviously, if the tax is to be at all a fair one, it must be graded according to the means of the taxpayer. The stage when the same rate of tax upon the \$2,000 a year man as upon the \$20,000 a year man was tolerated, has been passed long ago. Some allowance should be made, too, as in British practise, for family obligations. The good citizen with half a dozen olive branches has a call upon the State's consideration in comparison with the affluent bachelor, whose main financial concern is his golf club subscription.

There are obvious points and there are many others more complicated, which will need careful consideration if the new measure is really to be a fair one. British practise makes a distinction between "earned" and "unearned" income—the

latter income from investments—imposing a higher rate of tax upon "unearned." This is superficially attractive, but in practise is unfair to those of moderate means, who have carefully put by savings for a rainy day or to provide for old age. There is the question also of the wisdom, in the interests of a future free flow of capital to Canada, of Canadian taxation upon income which will be subject to British or other income taxation. This matter has come prominently into view in connection with the Australian income tax, and the British authorities, we believe, are impressed with the desirability of an arrangement which will make the income from capital invested in any portion of the British Empire subject only to one income tax, instead of two, as is at present the case in some instances. There is a somewhat similar point arising in connection with the provincial and municipal income taxes already imposed in Canada.

Considerable interest will be displayed, too, in regard to the action taken by Sir Thomas White in regard to the matter of life insurance premiums—as to whether or not he will follow British practise in making an allowance for them. It is noteworthy that, even under the stress of war conditions, this British practise, although slightly limited, has been maintained. As a measure for the encouragement of thrift, its efficiency is undoubted, and it is a simple matter enough so to frame legislation that the exemption shall not be abused by the use of fancy endowment schemes. Incidentally, this exemption in Canada would go some way to redressing the injury done to life policyholders, through the iniquitous taxation imposed upon them by the provinces. A further point to be borne in mind is that the present British income tax arrangements place the life insurance companies under disabilities, which while recently ameliorated, call for further reform. Presuming that the new tax will be a general one, taxing moderate incomes as well as large ones, we suggest that the Canadian Life Officers' Association might well appoint, at an early date, a committee to study the question of the incidence of British and American income taxation upon the life companies and their policyholders, with a view to representations to the Minister of Finance, looking to a fair and equitable arrangement, and suggesting also the following of the British practise in regard to the exemption, within limits, of life premiums from the taxable income. Sir Thomas White has previously shown himself, in matters of taxation, considerably more sympathetic than the average politician to the peculiar claims of life insurance, and it will be easier to start the new taxation on right lines than to alter a bad precedent.