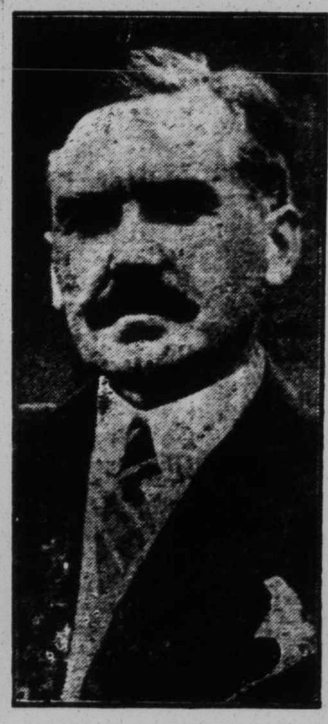
How Canada Will Pay Special War Tax Revenue

Major Part of War Taxes Will be Borne by Luxuries---Finance Minister White's New Revenue Proposals.

Ottawa, Feb. 11—Canada will finance the war by a general and sweeping increase in the tariff, and the levying of a special tax.

In the House of Commons Wednesday Finance Minister White delivered what will go down in history as the most important Budget since Confederation. He announced an increase of 7½ per cent. ad valorem in the general and intermediate schedules, and an increase of 5 per cent ad valorem to the British preferential. The free list is practically wiped out. Every article heretofore free or dutiable is affected with half a dozen important exceptions.



Finance Minister of Canada

How the War Cut Revenues

The Finance Minister, in opening, sketched briefly the Dominion's financial conditions for the fiscal year which closes March 31st next. He noted that in his special war budget in August last he had anticipated a sharp decline in revenue owing to the shutting off of trade with the enemy, the interruption and increased risk of ocean traffic, and, above all, the cessation of Canadian borrowings abroad, with its consequent effect upon purchasing power at home.

This anticipated decrease in revenue, said Mr. White, had been even greater than was, at the tide, expected. Customs revenue for the first ten months of the fiscal year had dropped by nearly $28,000,000; excise revenue by $2,000, and in miscellaneous items there had been a drop of $1,500,000. cccccccceecetaoin shrdlu eseze seses Since the war broke out customs revenue had decreased by about one-third, as compared with the corresponding period of the previous year. The increase in excise duties imposed at the war session last August have, however, practically counteracted the heavy losses which would otherwise have been experienced.

Estimated Revenue and Expenditure

He estimated the total revenue for the fiscal year, ending with March next, at $130,000,000 or $33,000,000 less than for the preceding year. Expenditures on the current account would be about $140,000,000, while capital and special expenditure would be $50,000,000. In regard to expenditures on current account, he noted that the policy of the Government was to maintain, as far as possible, the programme of public works which had already been undertaken before the war, but that no new works would be undertaken until the financial outlook became clearer.

The total expenditure for the present fiscal year would be $190,000,000. As against this the revenue would be approximately $130,000,000. On current account there would be a deficit of $10,000,000 while the entire amount of $50,000,000 for capital and special expenditure (other than war), would also have to be provided by borrowing. Mr. White noted that in the current account expenditure for the present year there was an item of $2,500,000 for the relief of distress in the drought-stricken districts of Saskatchewan and Alberta. In addition the Government was making provision for about seven and a half millions, or more, to be expended in the purchase of seed grain.

War Expenditure Heavy

Dealing with the question of war expenditures he noted that in August last the Prime Minister had estimated the cost of mobilizing, equipping, transporting and maintaining Canada's First Expeditionary Force up to the end of the present fiscal year would be $30,000,000. The Government, however, had enlarged the programme then contemplated. The Frist Expeditionary Force consisted of 32,000 men, fully armed and equipped, and today there were nearly 50,000 troops in active training throughout Canada, with their numbers being increased daily by enlistments. Altogether the special war expenditure from August until the end of the present fiscal year, said Mr. White, would probably reach $50,000,000, or the whole of the appropriation made at the special war session. Taking all expenditures into consideration, the increase of Canada's debt for the present year would possibly aggregate $110,000,000.

The task of finding money for all the requirements of the Government, he continued, had been decidedly onerous. For the first four months or so after the outbreak of the war the international money markets had been closed to new issues.

On January 18 last the British Treasury authorities had announced that owing to the necessity of conserving the financial resources of the country during the war, fresh issues should thereafter be made only, with their approval. Issues for undertakings outside of the British Empire were prohibited. Issues for undertakings within the United Kingdom are to be allowed only if considered advisable in the national interests; these for undertakings in the British Empire overseas only where urgent necessity and special conditions permit.

Financial Arrangements

To meet the financial requirements since the August session Mr. White noted that the Government had arranged with the Imperial Government for advances of $60,000,000 up to the end of the present fiscal year, of which $45,000,000 had already been received. In addition the Government had issued Dominion notes to an amount of $10,000,000 in excess of the additional issue of $15,000,000 authorized by Parliament at the last session. For this confirmatory legislation would be intr duced at this session. A further step had been the borrowing of $5,000,000 as a temporary loan from the Bank of Montreal, and the issue of a war loan in the British market of £3,000,000 on six months Treasury bills, negotiated at four and a half and four and a quarter per cent. maturing in June next. There had also been sold at a net price of 94½, Dominion debenture stock amounting to £1,300,000 in London. By these means the Dominion's finances up to the end of March had been satisfactorily arranged. Canada would enter upon the new fiscal year with a floating indebtness of £3,000,000 of Treasury bills maturing in June, and a bank indebtedness of $5,000,000. Apart from these there were no maturing loans to meet until the year 1919. As regards borrowing from the Imperial Government for war purposes, Mr. White said that the arrangements were that Canada should pay interest at the same rate as is paid by the Imperial Treasury upon its war loans. At such time, or times in the future as may be agreed upon by the British Chancellor of the Exchequer, and the Canadian Minister of Finance, a Canadian war loan would be issued, and the borrowings of the Imperial Government repaid.

Revenue and Expenditure

Turning to the question of revenue and expenditure for the coming fiscal year, Mr. White noted that due account must be paid to the continued interruption of international trade, the falling off of importation, the departure of so many troops, the increased risk of ocean traffic, etc. By far the most important factor, however, was the curtailment of our borrowings abroad. This had been the outstanding feature of the economic effect of the war upon Canada. Canada had been borrowing at the rate of from two to three hundred million dollars annually for some years past. For the six months preceding the war our loans abroad, principally in Great Britain, had aggregated $200,000,000, or over a million dollars a day. These borrowings represented the sale of federal, provincial and municipal railways, industrial and financial securities. The war at once cut off this stream of borrowed money, and evidences of its resumption upon a greatly reduced scale had only recently appeared.

"Till the war is over," continued Mr. White, "and for a considerable period afterwards, it is not probable that monetary conditions will permit of the issue of securities, even of the highest character, other than for war purposes, in any such volume as that to which we have been accustomed in the past. This interruption of the influx of capital has necessarily meant a marked curtailment of expenditure upon undertakings of all kinds in all parts of Canada, with consequent reaction upon the industries, trades and businesses furnishing material and supplies. The result has been a material slackening of general constructional activity, considerable unemployment and attendant diminished buying power on the part of the community."

Trade Returns

Trade returns, consequently, had shown a marked restriction, especially in import. The total trade for the first nine months of the present and last fiscal year was $745,000,000 and $885,000,000 respectively. In 1912 the adverse balance of trade against Canada was $225,000,000; in 1913, $200,000,000; in 1914, $180,000. At the present time Canada was making rapid progress towards overtaking this balance. Exports were increasing and indications were that with such borrowing as may be obtained outside of Canada, the country would be able to pay an adverse trade balance, together with interest maturing abroad, without resort to gold exports.

Taking into account the prospect of a further diminution in imports for the coming fiscal year and consequent reduced customs revenue, Mr. White estimated the revenue for 1915-16 at $120,000,000. Expenditures necessary for the conduct of civil government, and to meet interest and other uncontrolled expenditure would be about the same as for the present fiscal year.

Will not Stop Developments

The Government planned to go ahead with all the terminal and harbor development in the larger port cities, the completion of the National Transcontinental Railway and the Quebec bridge, the Hudson Bay Railway and the Welland Canal, and other national works already under contract. The estimated total expenditure on consolidated fund account for the coming year he placed at $140,000,000, and on capital and special expenditure the total would be $440,000,000. In addition, the Government would have to meet $4,000,000 authorized by statute; $15,000,000 to retire outstanding Treasury bills in June next; $100,000,000 for war expenditures, and $21,500,000, for international charges on the national debt. Provision would also have to be made for a long and increasing pension list expenditure.

Assuming that our total cash requirements for all purposes whatsoever, continued Mr. White, including our war expenditure, will amount during the coming year to over $300,000,000, while our revenue on the present basis will yield only $120,000,000, we are faced with the problem of raising by additional taxation and borrowing, a sum in excess of $180,000,000.

No Hesitancy in War Loan

As to the expenditure of $100,000,000 for the purpose of war, the Finance Minister maintained that there should be no hesitation in borrowing the full amount required under this heading. It was a debt properly chargeable against future generations, whose individual liberty and constitutional freedom were being secured. It was therefore the intention of the Government to negotiate for a continuance of the arrangement with the Imperial Government for the purpose of procuring funds necessary to meet all special war expenditure.

The problem still remained of increasing our revenue so as to meet current expenditure, and at least a part of capital expenditure, during the coming year. Many suggestions had been made for supplementing the revenue, some practical and some impracticable.

"We must endeavor," he said, "to raise additional revenue to an amount of at least $30,000,000, and when we have accomplished this we shall still be obliged to borrow heavily over the next fourteen months; that is to say, up to the end of the next fiscal year to meet expenditure for purposes other than war. We feel that the situation with which we are confronted should be resolutely met, and the finances of the country placed upon a basis which will enable us to go forward, prepared to face whatever may lie before us, until this war is concluded and concluded as we would wish."

New Taxation Proposals

Coming to the announcement of his new taxation proposals, Mr. White declared that the government must look principally to the tariff as the chief source and mainstay of revenue. Taxation imposed by increased customs, duties, he declared, bore upon all classes and each member of the consuming community would contribute proportionately to the cost of the war and the defence of the country. As a preliminary, however, to the announcement of the tariff increases, he announced that the government would institute special taxes, the burden of which would fall more particularly upon those members of the community best able to sustain it. He then proceeded to announce the new special taxes, which will be incorporated in bill entitled "The War Revenue Act 1915," covering both the tariff taxes and the special taxes.

The special taxes were announced as follows:

Banks, Trust and Loan Companies

Upon all banks to which the Bank Act applies, a yearly sum equal to one per cent. upon the note circulation, to be computed and paid quarterly. From this taxation we shall realize approximately one million dollars.

Upon every trust and loan company incorporated under any legislative authority, and carrying on business in Canada, a yearly sum equal to one per cent. of its gross income derived in Canada, payable quarterly.

Upon every insurance corporation, society association, firm or partnership carrying on the business of insurance other than life, fraternal benefit and marine insurance, a sum of one per cent. upon all net premiums received by it in Canada; payments to be made quarterly.

The provisions of the bill will apply to the business of the respective banks, trust and loan and insurance companies transacted after Jan. 1st, 1915, and the first receipts therefrom will reach consolidated revenue fund about May 1st.

Telegraph and Cable Messages

In addition the following taxation will be provided for: Upon every cable and telegraph company using tlegraphic cables or wires within the jurisdiction of Canada, a sum equal to one cent, upon each despatch or message originating in Canada for which charge of fifteen cents or more is imposed; returns to be made quarterly. Each company is authorized to charge additional tolls and collect the same from the person sending the message.

Will Cost More to Travel.

Upon every purchase of a railway or steamboat ticket inCanada for any point in Canada, Newfoundland, West Indian Colonies or the United States the sum of five cents in respect of a ticket costing over one dollar, and not more than five dollars, and five cents for each additional five dollars, or fractional part of five dollars which the ticket costs.

Upon every purchaser of a berth in a sleeping car, or a seat in a parlor car, the sum of ten cents in respect of each berth bought, and five cents in respect of each seat bought, in Canada, the railway or steamboat company, or persons selling the railway, sleeping car and parlor car tickets referred to, are required to collect the taxes imposed and transmit to the government.

Upon every person, firm or company carrying passengers by vessel to ports or places other than ports or places in Canada, Newfoundland, the British West Indies and the United States, in respect of each passenger, the sum of one dollar, if the amount chargeable for the passage exceeds ten dollars, the sum of three dollars if such amount exceeds thirty dollars, and the sum of five dollars if the amount exceeds sixty dollars. The company is authorized to collect the tax from the passenger and is required to account therefor to the government.

Stamp Taxes

In addition to the above the following stamp taxes are proposed:

Upon all cheques, receipts to banks by depositors and upon bills of exchange passing through a bank, a stamp tax of the value of two cents.

Upon all express andp ost office money orders a stamp tax of the value of two cents, and upon postal notes a stamp of one cent.

Upon every letter and postal card posted in Canada a war stamp tax of one cent.

Upon every bill of lading a stamp tax of two cents.

Upon proprietary or patent medicines and perfumery sold in Canada the retail price for each bottle or package of which is ten cents or less, one cent; and in addition for each ten cents of retail price, one cent.

Upon wine, non-sparkling, sold in

(Continued on page 8)