Dominion's Plan to Keep Funds at Home

To Discourage Purchase of Allied Loans in the United States, Dominion Government May Impose Income Tax Upon All Such Issues.

In our issue of August 19th we discussed editorially some objections to the purchase by investors in Canada of securities that were floated in the United States for the purpose of rectifying adverse exchange rates. The Toronto correspondent of The Annalist, New York, gives a more explicit treatment of the question in the issue of August 21st:—

"The purchase in Canada of foreign Government securities, issued in the United States, has caused the Dominion Government to give more serious consideration to the conservation of Canadian funds for Canadian purposes. The importance of the matter is emphasized by the fact that Canada's share of the war is costing $1,000,000 daily. There is not a tax at present upon such securities. No direct official intimation has been made that such a tax will be enforced. Under the War Measures Act, however, the Government has power to prohibit the offering of foreign securities in the Dominion, as has been done in Great Britain, but it has preferred as yet to rely upon the patriotism of Canadian investors rather than to adopt restrictive measures.

"The only announcement made by the Dominion Government in regard to this matter was that made by the Finance Minister in July. His statement called attention to the fact that Canadians were being circularized from the United States to purchase foreign Government securities issued there for munitions credits. Canadian investors were urged to reserve their funds instead for the forthcoming Canadian war loan. It was pointed out that on account of the rapidly increasing war expenditure and the heavier demands which the future will make in this respect, it is of supreme national importance that the financial resources of Canada should be conserved for its own purposes and that as much as possible of the national debt should be held in Canada. The Finance Minister at the same time recalled that there is an abundance of capital in the United States to absorb all issues made there, and the allied interests would not, therefore, suffer through Canadians refraining from participation and husbanding their resources to meet their own national needs. These statements followed the bond offering in the United States and Canada of the three-year 5 per cent. gold notes for advances to France. They also constitute the only official utterance on this particular question.

"When the British war loan of £600,000,000 was floated in June last year, Canadians desired to subscribe; but Chancellor of the Exchequer McKenna, in the Imperial House of Commons, expressed the hope that residents of the Overseas Dominions 'will not lose sight of the fact that they can do a greater service to the Empire by lending their resources to their own Dominions, and so reduce the call made by those Governments on the United Kingdom.' This was really the first serious intimation of the necessity for Canadians to conserve their funds for Canadian loans. When the Anglo-French loan of $500,000,000 was issued in the United States, there was a decided disposition in Canada to invest heavily in those bonds. Sir Edmund Walker, president of the Canadian Bank of Commerce, was reported then as saying that he would very much dislike to see British or Canadian citizens subscribe to the loan, as every dollar that was contributed to that loan was money diverted from Canada in the event of a similar loan being raised there. This statement was made a few weeks before Canada's first domestic war loan was announced in November last.

"The British Government also issued a statement stating that the main purpose of the Anglo-French loan was to give support to United States exchanges, and added that it was 'very undesirable in the public interests that persons or firms in the United Kingdom' purchase the loan. No official statement was issued by the Canadian Government on the matter, but, shortly after, the first domestic war loan was announced, which had the effect at least of postponing Canadian purchases of Anglo-French bonds.

"During the first week of August a press dispatch from Ottawa stated that, in view of the large purchases made in Canada of Anglo-French and other Government bonds issued in the United States and 'the serious effect which the continuation of such purchases will have upon the exchange situation' between the two countries, it was now regarded as certain that at the next session of Parliament legislation would be introduced imposing special income taxation upon all non-Canadian securities held by Canadians. It was not an official pronouncement, but the trained newspaper eye immediately recognized it as emanating from the Government, thus coming into the category of semi-official statements.

"The result of this intimation has been that a certain amount of the securities concerned have been sold and that very few additional blocks have been purchased. With the second Dominion war loan, probably of $100,000,000, coming early in September, Canadian funds are being conserved for that purpose, and the market for foreign Government securities in Canada is at a standstill. With the possibility of a tax on his foreign securities, the Canadian investor's appetite for them has naturally become less keen.

"The general interpretation of the Ottawa announcement as to possible taxation is that it is more of a warning to investors than a decision to enact the suggested legislation. At the same time it cannot be said definitely that the Government will not introduce the new tax. The announcement is also thought to refer more particularly to foreign Government loans placed in the United States to adjust exchange and to pay for munitions and supplies manufactured in the United States.

"These views are somewhat strengthened when it is recalled that in his budget speech of February, 1915, Sir Thomas White, Finance Minister, stated that the question of income tax upon individuals had had the consideration of the Government, and it appeared to them that such a tax was not expedient, 'at all events for the present.' In order to bring into force an income tax the Government would be obliged to create machinery for assessment, revision, and collection. This would involve a heavy expense as compared with the amount which would be realized. Taking the income tax of the United States as a basis, Canada could hardly expect to derive more than $2,000,000 from a similar tax, and from that would have to be deducted the expense of its administration.

"Other objections mentioned by the Finance Minister at that time were the facts that the several Provinces of Canada were also likely to be obliged to resort to measures for raising additional revenue; that a long period must elapse before a new income tax becomes productive; that while in Britain the tax is the chief source of revenue to the Government and taxable incomes are derived largely from investments, the position in Canada is different; and, finally, that in certain Canadian Provinces income is subject to taxation by municipalities and in two instances by the Provinces themselves. In addition to those difficulties,