

NEW BUSINESS TAX ACT.

THE business profits war tax act, which came into force in 1916, will operate until 1918. Under its provisions, incorporated companies were taxed 25 per cent. on net profits exceeding 7 per cent. upon capital employed (throughout the accounting period) of \$50,000, or over. The profits of a business owned other than by an incorporated company, were taxed 25 per cent. on net profits exceeding 10 per cent.

The taxation applies also to businesses with capital less than \$50,000 and making munitions to the extent of 20 per cent. of their output.

The amendment to the act, introduced by Sir Thomas White in the House on May 1st, 1917, changes the fixed tax to a progressive one. A company's profits up to 7 per cent. are exempt. On profits from 8 per cent. to 15 per cent. inclusive, 7 per cent. is exempt, the balance being taxed 25 per cent. On profits exceeding 15 per cent. to 20 per cent. inclusive, 7 per cent. is exempt, 8 per cent. will be taxed 25 per cent. and the balance (not exceeding 5 per cent.) will be taxed 50 per cent. On profits exceeding 20 per cent., 7 per cent. is exempt, 8 per cent. will be taxed 25 per cent., 5 per cent. will be taxed 50 per cent., and the remainder will be taxed 75 per cent. How this progressive tax works on the profits of a company with capital of \$100,000, for example, is shown in the accompanying table.

Capital employed includes (a) amount of capital stock of a company paid up in cash (or a fair valuation of such stock if issued against any other consideration than cash); (b) actual unimpaired reserves, or accumulated profits. An incorporated company's capital (plus unimpaired reserve, rest or previously accumulated profits if used as capital) existing at the beginning of the accounting period is the basis for the allowance of the 7 per cent. exemption.

The amended act provides that the increases in the tax "shall be levied against and paid by the person owning such business for each and every accounting period ending after December 31st, 1916." The tax, therefore, will cover most of the year 1916 for a large number of companies, but those whose fiscal years conform to the calendar year, will not pay the additional taxation during the latter part of 1916. The tax apparently is computed for the full year for each company from the beginning of the accounting period. Where the company's year ends January 31st, 1917, the tax commences from February 1st, 1916.

In the original act, the tax was retroactive and to be levied for three years upon the net profits shown to any accounting period (fiscal year) after December 31st, 1914. Dividends received from the stock of any incorporated company taxed under the act, were not included in the profits taxed. Reasonable deductions from gross profits for depreciation, renewals, etc., were allowed.

The periods during which the tax was payable under the old act were as follow: Any company, firm or individual which was liable on July 1st, 1916, to a tax on two or more accounting periods covering two years, the tax covering the first twelve months could be paid on November 1st, 1916, the tax covering the second twelve months on November 1st, 1917; and the third and last year's tax on November 1st, 1918. Interest at 7 per cent. is chargeable on taxes in arrears.

The amended act applies to all incorporated companies or private firms to which the original act applied.

HOW THE NEW BUSINESS WAR TAX WORKS ON PROFITS OF A COMPANY WITH CAPITAL OF \$100,000

A company, with capital of \$100,000, earning	Will be free of taxation up to 7%	The company will pay on the balance of its profits:						Thus, of total profits of	The company will retain of profits	or	Government will retain as tax of profits	or	
		25% of	or	50% of	or	75% of	or						
%.	\$	\$	\$	\$	\$	\$	\$	\$	%	\$	%	\$	1
10	7,000	3,000	750	—	—	—	—	10,000	9¼	9,250	¾	750	2
15	7,000	8,000	2,000	—	—	—	—	15,000	13	13,000	2	2,000	3
20	7,000	8,000	2,000	5,000	2,500	—	—	20,000	15½	15,500	4½	4,500	4
25	7,000	8,000	2,000	5,000	2,500	5,000	3,750	25,000	16¾	16,750	8¼	8,250	5
30	7,000	8,000	2,000	5,000	2,500	10,000	7,500	30,000	18	18,000	12	12,000	6
50	7,000	8,000	2,000	5,000	2,500	30,000	22,500	50,000	23	23,000	27	27,000	7
100	7,000	8,000	2,000	5,000	2,500	80,000	60,000	100,000	35½	35,500	64½	64,500	8
200	7,000	8,000	2,000	5,000	2,500	180,000	135,000	200,000	60½	60,500	139½	139,500	