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Explanation of Taxation Amendments

SIR THOMAS WHITE *Explains His Budget Measures as They Now Stand—Interpretation of Capital and Reserves—Position of Holding Companies—Stock Market Value is Not Considered Conclusive Evidence—Position of Canadian Companies Controlled Abroad*

IN submitting the amended taxation resolutions in the House at Ottawa last week, Sir Thomas White said, in regard to making the taxation apply to the past:

"Large profits were derived during 1915 by many firms and companies engaged in the munitions business and in many other businesses in which, owing to the war, there was an abnormal rise in the price of the commodities dealt with. Secondly, there is this consideration: that it is not desirable, as this measure is a temporary one, to extend its provisions to far into the future. The government is of the view that the measure might with fairness be made to apply to businesses in respect of accounting periods which end after December 31, 1914, instead of after August 4, 1914. The months of August, September, October and November, after the outbreak of the war, were very trying months; and, therefore, I have to propose that the taxation measure shall apply to businesses in respect of accounting periods which end after December 31, 1914.

"It takes a considerable time to levy income taxation, or taxation in the nature of income taxation, and so far as I am acquainted with that kind of legislation, income taxation, or taxation in the nature of income taxation, is always levied in respect of the past, and usually in respect of the past year. Whether that be the basis, or whether it is upon the actual business, the tax is levied upon an amount determined by the past year's business. If we provided that these proposals should apply only to accounting periods from this date forward, it is perfectly obvious that we would not be able to obtain any revenue during the present year, because it takes almost a year to make assessment, to allow for revision, and, finally, to collect the taxation.

"The discretion of the minister to determine the accounting period applies only to cases where the accounting period exceeds a year, or where there is no accounting period. I do not think that occasion will arise frequently for the exercise of that discretion. It is only to safeguard the measure, so that companies cannot evade the tax by saying: 'We have no accounting period.' As a corollary to what I have stated, namely, that the new proposals will apply to accounting periods ending after December 31, 1914, the operative part of the bill will come to an end on December 31, 1917, instead of August 3, 1917, in order that the measure may apply to three accounting periods of a year, and to not more than three accounting periods a year.

"It is not necessary for me to say that in an intricate measure of this kind, a measure so far-reaching in its character, it has not been an easy matter to deal with the important question of reserves. The committee, comprising as it does so many lawyers and business men, of course understands that there are reserves and reserves. One company has carried on its business properly. Starting years ago with a small capital, it has written off year by year a proper amount for depreciation. Every year it has put part of its profit back into business, usually into the plant or stock in trade. In a word, it has built up its business along conservative lines. Some of the greatest enterprises in the world have been built up precisely in that way, and in my opinion that is the proper way to build up large industries; that is to say, to grow by certain and sure steps from small beginnings to a larger, and finally to a great business. In cases such as that, where the reserves are true reserves, no question could possibly arise. Such reserves are just as much capital as the paid-up capital of the company, even if it is fully paid up in cash.

"The question does not arise in the case of firms, because there we are taking the value of their assets. I was referring more particularly to reserves of incorporated companies. On the other hand, there are companies whose reserves are more or less what might be called book-keeping reserves. Some of these reserves are actual reserves, but others cannot be regarded as true reserves. We have in this country a number of public franchise corporations, for example. I do not wish to make a sweeping statement, because it would probably be inaccurate, but I know that in the case of many of these companies very little is written off year by year for plant. The profits in excess of the dividend distributed to shareholders are carried to profit and loss account, or to reserve. The motive may be to show a large body of assets, especially in the case of those companies whose franchise expires at a certain time and who look forward to their plant being taken over by the municipality. Such companies naturally desire to show as large a body of assets as possible in anticipation of that time and of such taking over.

"I use these two illustrations because they represent extremes. In the one case, we have the well managed company with true reserves, and in the other the company which, neglectful of sound business principles, has failed to make due allowance year by year for depreciation, and to whom it has been an object to build up reserves which,