Our Income Tax Compared with the Revised American Tax

What the well-to-do and the rich will pay in the United States and Canada

By H. M. P. ECKARDT.

On August 6th the Finance Committee of the United States Senate reported out the War Revenue Bill; and in view of the discussion of the terms and conditions of our new income tax, it is interesting to compare them with the American tax as revised by the Senate Committee. In the first place the difference in exemption limits is to be noted. The Canadian bill, as introduced, exempted incomes of married persons up to $3,000, and of unmarried persons up to $2,000. Subsequently the exemption of the latter was reduced to $1,500. The new American bill requires married persons to pay the tax on incomes in excess of $2,000, and unmarried persons on incomes in excess of $1,000. The exemption limits previously applying in the States were $4,000 and $3,000 respectively for married and unmarried persons. Another point is to be noted here. Judging from the discussion in the Ottawa House of Commons, when both husband and wife have an income each may claim exemption up to $3,000 under our law; whereas in the United States the practice in such cases is to allow the exemption but once against the joint income of husband and wife.

With reference to the reduction of the exemption limit from $3,000 to $1,000 in case of unmarried persons in the United States, this will obviously bring in a very large number of new contributors, and there was considerable reluctance manifested by the legislators to such enlargement of the scope of the tax; but the need of money for war purposes was imperative and it was considered that the broadening of the taxation basis could not be avoided. Even as so lowered the American tax does not touch single working men or women earning no more than $3 per day. This lets out much unskilled labor, and in case of married persons the exemption of $2,000 frees a considerable body of skilled labor from the necessity of contributing. The normal tax at 4 per cent is to be the same in both countries. In Canada's case this is to apply on incomes ranging from the exemption limits up to $6,000; while, under the new war revenue bill of the United States the super tax begins to apply when the income passes $5,000. As regards the super tax, the American law is complex. First there is the normal tax of 2 per cent under the old law; then the additional normal tax of 2 per cent under the new law; next the surtax imposed by the old law; and finally the additional surtax specified in the present bill. Large incomes in Canada are to be subject merely to the normal tax and surtaxes as provided in the new measure.

On comparing the net results it becomes clear that Sir Thomas White has endeavored to avoid making the tax on large incomes materially greater in Canada than the rates that are to prevail in the neighboring country after the recent additions become effective there. The New York Sun on August 7th had a compilation of taxes collectible on large and small incomes subject to the new American law; and on comparing these results with the estimate of results of our law, as submitted to the House of Commons by the Minister of Finance on July 25th, it is seen that the disparity is not great. Taking the tax on married persons, in the United States, an income of $3,000 will be taxed $20, while an income of the same size in the Dominion goes free. In case of incomes of $4,000, $5,000, and $7,000, the tax works out exactly the same in both countries, viz., $40, $80 and $180 respectively. The married person in Canada with an income of $10,000 will be required to pay $360 per year; while the American married person with a similar income gets off with $355. A Canadian income of $15,000 will pay $810 per year, as against $730 paid by an American income of the same amount. When we come to $20,000 incomes the difference is still in favor of the American taxpayer—his assessment being $1,230, as against the assessment of $1,260 levied on the Canadian. As we proceed to the higher levels the balance inclines slightly in favor of the Canadian incomes. The tax on a Canadian income of $50,000 will be $5,260, while an American income of that amount pays $5,430; and, as regards incomes of $100,000 a year Canada will tax them $14,760, and the United States, $15,630. An income of $200,000 in Canada would be taxed $43,760. If there are any Canadian incomes of $1,000,000 per year, they will each be taxed $275,760. This is somewhat less than the rate levied in the United States, where the man or woman with a million dollar income must pay $347,430. The Washington Treasury Department estimates that there are in the United States 124 persons with incomes in excess of $1,000,000 per year. This little body of rich men will probably contribute to their government in the form of income tax more than $50,000,000 per year.

It is not likely that Sir Thomas White will find in Canada many incomes in excess of $200,000. An income of $200,000 on the basis of a 5 per cent return would represent a capital of $4,000,000, which though not large from the American point of view, is very substantial according to our Canadian standards. When discussing the productivity of a Dominion income tax, it is necessary to take account of the tax-exempt war loan bonds. If a rich man with total income of $200,000 per year, has $1,000,000 of war loan bonds, one-quarter of his income, or $50,000 per year, will go untaxed. To get the same net result from an investment of $1,000,000 in non-exempt securities, he would require to have an interest return of about 7 per cent (figuring his income tax at the maximum rate, 29 per cent). Take the case of a $100,000 a year man who calculates that the income from his new investments must pay income tax at 19 per cent. He has $100,000 to invest. If it goes into Dominion bonds, say on a 5½ per cent basis, he gets $5,500 per year free from income tax; whereas if he places it in ordinary securities yielding an average of 6½, the gross yield would be $6,500, subject to income tax of $1,235, leaving a net yield of $5,265, or $235 per year less than in the other case. This explains why the investment funds of the very rich are likely to gravitate towards the tax-exempt war bonds. Of course, as we progress towards the smaller incomes, the inducement for putting new funds into tax-exempt bonds for this purpose becomes less. We have seen that in case of a $100,000 income, calculating the tax on income from new investments at 19 per cent, the exemption feature of the war bonds is worth considerably more than 1 per cent per year. In the same way it can be shown that the exemption from income tax is worth from ¼ to 1 per cent per year in cases of investments made by parties with lesser incomes.

The comparison of tax rates as between United States and Canada shows why our government did not apply a heavier tax upon Canadian rich men. It certainly would operate to deter Americans and other outside parties from investing in the Dominion if our taxes were fixed much higher than the rates prevailing elsewhere. There are also other economic reasons why the tax should not be of such a character as to take away from the rich the greater part of what they make. Everybody agrees that is right to place the heaviest burdens upon those who can easily bear them; but if the government went to extremes in taxing the well-to-do, the chances are that its policy would result in depriving thousands of small wage earners of their incomes. The money which the government takes from taxpayers is largely expended for non-productive purposes—in other words it is consumed or destroyed. So if the National Treasury takes three-quarters of the income of a $100,000 a year man—on the theory that the remaining $25,000 is enough for him to live on—the result is that perhaps $75,000 of what would otherwise be new capital would be destroyed. If this man is taxed $15,000 as in the new bill, he would not consume or waste the extra $60,000, but would put it into new investments some of which would increase the productive capacity of the country, and perhaps give employment to a considerable number of men.

When War is Over

What England is doing for the soldiers.—Several organizations besides the Government at work

Special Correspondence of the Journal of Commerce.

LONDON, July 24th, 1917.

There is one after-the-war problem upon which we have not yet had any guiding pronouncement from the Government. Yet it is one that is occupying the minds of a good many people who are deeply concerned, from social or industrial points of view, with the careers of our fighting men when the war is over.

By way of preliminary it may be pointed out that the Government has provided and financed a scheme for the after-care of disabled men far in advance of anything that has ever been done before in this way. It is true that constant agitation takes place for improved benefits, not only for the men themselves, but for their widows and dependents. Yet we have on record the statement of Mr. J. M. Hogge, M.P., the chief critic of the Government in this matter, that the Government's work is a considerable advance in the right direction. There are numerous instances of present provision for disabilities which were not even recognized as disabilities by any previous scheme.

Apart from this aspect of the question there are now three considerable organizations— and one which has not yet proved itself important—set up for the purpose of guarding the interests of the soldiers and sailors on demobilisation.

The first of these, the Federation of Discharged and Disabled Men, had its origin in the local bodies which met to obtain proper representation of the men's interests in regard to separation allowances and kindred matters. Such bodies naturally took an interest also in pensions, and the Federation now covers both subjects.

The second is the Council of Workmen's and Soldiers' Delegates to which I referred a fortnight ago. This is frankly a socialistic organization, and is an attempt to rehabilitate the declining influence of the Independent Labour Party. It combines regard for allowances and pensions with other subjects concerning the industrial future of the discharged men; but the extent of its power as a political factor is not yet indicated. A good deal will depend upon the type of men who are now being elected as delegates to the Central Council. And, after all, the main concern of the Council is not so much pensions as wages.

The third attempt to found an organization of this kind was launched by a widely circulated weekly newspaper and was described as "the Blue and Khaki League." It does not seem to have caught on, although its objects were almost similar to that of the Federation mentioned above.

Lastly, we have the recent announcement of the formation of a "Veterans of the Grand Army Association," which has been launched under somewhat powerful Conservative auspices and with the backing of a strong organization. It is really a set-off to Mr. Hogge's Federation, and an attempt to detract from the numbers gathered in by the Council of Workers 'and Soldiers' Delegates.

Roughly speaking, therefore, we have now after-the-war welfare associations broadly representing (1) The Liberals, (2) The Conservatives, and (3) The Socialists. There are cross-currents, but this rough statement indicates the points of view from which the problem is being attacked. It must not, however, be thought that these associations have any real character. Indeed, the Government is thoroughly justified in considering that it has dealt generously and beyond all expectation with a complicated and vital subject, and that the Ministry of Pensions and the Ministry of Labour—both of them new departments established by Mr. Lloyd George—are competent to do all that is needed without any assistance from outside unofficial organizations.

Yet there is no doubt that the existence of these new and independent organizations must be taken into account in considering after-the-war problems. There is to-day a movement on foot for an increase in the pay of soldiers in the Home Regiments. There is a constant agitation for more and greater benefits for disabled men and their dependents. All these matters affect the standard of living, which has been constantly on the rise in this country since the war began, and whose preservation will remain the most important factor in industrial wages problems that await us in the near future.