

Remove Luxury Tax to Stimulate Business

Statement Issued by Government Maintains That Objects of Tax Have Been Accomplished—Took Effect on December 20—Sales Tax Remains in Force

(Special to *The Monetary Times*.)

Ottawa, December 23, 1920.

BY an order-in-council passed on December 18, the luxury taxes imposed at the last session of parliament were abolished, commencing December 20. The order was passed under authority of section 92 of the Consolidated Revenue and Audit Act, which empowers the government to remit any duty or toll. Exceptions are made in the case of spirituous and alcoholic liquors, medicated wines, patent and proprietary preparations containing alcohol, lime and fruit juices, fortified spirits and strong waters, perfumery and toilet preparations, playing cards and confectionery, on which the tax will still be collected. The sales tax, collected from manufacturers, wholesalers and importers, remains in force. An official statement referring to the order says:—

Official Statement

"Many important industries are completely shut down, while others have laid off their employees by the hundreds and thousands due to lack of orders, a condition brought about largely by the idea generally held by the public that this method of taxation was intended to be of a temporary character and must sooner or later be abolished. Having this idea in mind, the public had practically stopped buying, with the result that factories in many important lines could not operate and their organizations were seriously dislocated. With the winter upon us these serious and extraordinary conditions were accentuated, and it appeared clear to the government that immediate action was necessary in the interests alike of employees, manufacturers and the general public.

"Sir Henry Drayton, after an exhaustive study of the problem, reached the undoubtedly sound conclusion that the main and exceedingly necessary and useful purposes for which these taxes were imposed namely, that of curtailing extravagance, reducing prices and causing the people to think and reflect upon conditions and prices had been well attained, and that it would be unwise in the public interest to continue the taxes in face of the grave unemployment situation, and in view also of the fact that conditions and prices are steadily becoming more normal. He feels that the sooner business of all kinds can be stabilized and steadied down to normal the better it will be for everybody, and toward that end he considers it to be his duty to take prompt and extraordinary action, as in this case, to meet extraordinary conditions.

Merchants in Difficulty

"He also had in mind the situation of merchants who, in many cases, were unable to stand up under the double burden of falling values of their stocks and luxury taxes. In this connection there is no doubt the operation of the taxes checked purchases by merchants of high-priced stocks and, to that extent, was beneficial to them.

"The order was passed under authority of section 92 of the Consolidated Revenue and Audit Act, which empowers the governor-in-council to remit any duty or toll. The Laurier government exercised this power on two occasions, once in 1901, when they remitted the duty on seed wheat for the farmers in the west, and again in 1911, when, to meet a serious shortage of coal in the west, they remitted the customs duty on all coal imported at all ports west of Sault Ste. Marie. The same authority was also exercised by the last government in remitting the duty on cattle and tractors.

"The order providing remission of these excise taxes means that the taxes will not be collected on sales and importations made on and after Monday, December 20."

When Sir Henry Drayton, finance minister, brought down his last budget, there was a certain curiosity as to whether the Business Profits Tax would be included or not. Special provision was made for its continuance for twelve months, but Sir Henry Drayton said with reference to severe criticism directed against this method of obtaining revenue: "It may possibly be that with another year business will be more normal and that no business profits tax should be levied."

When the next budget is brought down there will be tremendous interest in the announcement with regard to this excess profits tax, and not alone because it was indicated that this is a temporary tax, and that it might possibly be eliminated this year. That interest received great stimulus from the government's action last Saturday in ordering the collection of luxury taxes to cease last Monday. Luxury taxes were also introduced as temporary taxes, but it is worthy of note that while the luxury taxes were introduced with the avowed object not only of providing revenue, but of checking extravagance and wasteful buying, and helping to bring about deflation, the exemption of profits from the operation of the Excess Profits Tax was increased from 7 to 10 per cent. of the paid-up capital, with the avowed object of enabling firms "to set aside more of their profits to reserves or plant extensions, and to put their business in a better position to meet the deflation period, while a check will still be held on abnormal profits."

The tax put on to help produce deflation has now been taken off, in consideration of unemployment produced partly as a result, and because it is claimed a certain deflation has been produced. As further deflation is expected in many lines, the query put insistently to the Finance Minister is as to whether the conditional promise made last year of removing the Excess Profits Tax if business became more normal will be fulfilled this year. The government has admitted the force of most of the arguments made against the Excess Profits Tax, claiming only that it is a rough-and-ready method of getting revenue at a time when it is greatly needed from those who have had exceptional prosperity in the country. They admit that it bears unjustly on some companies and on some kinds of business as compared with others; that methods of capitalization differ; that profits required in different industries differ, and that it leads many firms to spend far more in salaries, in extravagant purchases and on their business than they would otherwise do.

Luxury Tax Not Productive

The great difficulty is revenue, however. November's luxury tax collections amounted to \$1,200,000, and the whole amount collected to date is about five million dollars, and would not exceed fourteen or fifteen million dollars in the best of years. It is a more serious matter with the Excess Profits Tax, which produced a revenue of \$32,970,061 for the fiscal year 1918-19 and \$44,145,184 for 1919-20. Up to December 20 the amounts collected this year had fallen to \$23,129,455, and, with the 10 per cent. exemption coming into play for the profits earned during this year, the collections in 1921 will not come anywhere near the high levels hitherto attained, and it would be a long time before they would do so. Yet thirty or forty million dollars from luxury and excess profit taxes is a great deal of revenue to lose, even when total collections approximate the six hundred million dollars which the Dominion hopes to have received by the end of the fiscal year. If collections from other sources keep up, the Excess Profits Tax will go, however. The problem is to make up the loss. An eye has to be kept on the United States in any income tax legislation, and the customs