Is a Dominion Income Tax in Sight?

By H. M. P. ECKHARDT.

Canada's total expenditure on war for the fiscal year ending March 31st, 1916, according to the revised figures issued by the Department of Finance, was $166,197,755 — an average of $13,849,813 per month. For the eight months of the current fiscal year, up to November 30th, 1916, the war expenditure amounted to $146,527,530, or $18,315,941 per month. Continuation at the same average rate for the four remaining months of the fiscal year would result in a total war outlay of roundly $220,000,000. In the budget speech of last February the Finance Minister estimated the war expenditure for the fiscal year ending March, 1917, at $250,000,000, the ordinary expenditure of the Government at $135,000,000, the capital expenditures at $30,000,000, and the revenue at $170,000,000 — the anticipated deficit being $245,000,000. A study of the expenditures shown for the first eight months tends to create the impression that in each of the three items of outgo the aggregate expenditure for the year will fall short of the amount estimated. We have seen that taking it on the pro-rata basis for the remaining four months, the war outlay for the fiscal year would reach $220,000,000 instead of $250,000,000 estimated. Taking the ordinary and capital expenditures in the same way they would come out $104,000,000 and $24,000,000 respectively, instead of $135,000,000 and $30,000,000 as appearing in the estimate. Perhaps this apparent gain of $67,000,000 will be largely, if not completely wiped out when the closing entries are put through; and it will be the safest course to assume that all three branches of expenditure in the last analysis will be practically up to the estimated figures.

There is no longer any doubt that the revenue will exceed the estimate by a handsome margin. Total receipts for eight months are $144,912,573. This is at the rate of $217,000,000 for a full year; and it appears reasonably certain that the aggregate collections shown at closing of the books will be in excess of $200,000,000. With its total revenue of $23,164,765, the month of November established a new high record. Besides the very large customs revenue, there were in that month important receipts from the excess profits tax. The item "Miscellaneous" revenue in November, 1916, amounted to $5,650,200, as against $1,413,326 in November, 1915. The presumption is that the increase of roundly $4,200,000 arose chiefly from payments of amounts due under the excess profits tax. So it appears that the increase of debt during the fiscal year will not be more than $215,000,000, and it may not exceed $200,000,000. While the war lasts we have to expect that our net debt will increase at least $200,000,000 per year, and another year of hostilities will bring to the fore the question of methods of raising additional revenue. There is considerable speculation as to whether the business profits tax will be expanded into a general income tax. This is a special tax imposed for a period of three years; and at its expiration in 1918 it is not likely that the financial position of the Dominion Government will be such as to permit the abandonment of any of the important taxes. Owing to the increased interest charge on the national debt, the pension requirements and other legacies of the war, the Government then will be giving its attention more to the matter of new taxes than to remission of old taxes.

It is worth while here to recall the several reasons or points, adduced by the Finance Minister in his budget speech of February 11, 1915, as influencing his decision at that time against a general income tax. The chief objection was the fact that the several provinces were likely to be obliged to resort to measures for raising additional revenue, and the Minister considered that the Dominion should not enter upon the domain to which they are confined to a greater extent than is necessary in the national interest. He explained that in certain of the provinces income is subject to taxation by municipalities, and in two instances by the provinces themselves. Then, there was the consideration that in order to bring into force an income tax the Dominion Government would be obliged to create machinery for assessment, revision and collection. It was stated that this would involve a heavy expense as compared with the amount that would be realized. With reference to this the speech proceeds as follows:

"Taking the income tax of the United States as a basis it would appear that Canada could hardly expect to derive from a similar tax a sum in excess of two million dollars, from which would have to be deducted the heavy expense connected with its administration."

In view of the considerations mentioned the decision was that it was not expedient to put the income tax in force "for the present." Now let us examine the situation with the object of discovering whether circumstances have changed in any respects, during the 22 months that have passed since the speech was delivered, so as to be more favorable to the institution of a general income tax. First, take the matter of creating the machinery for assessment, revision and collection. It appears to be the case that the machinery called into being to administer the business profits tax would be useful in connection with the administration of an income tax. Perhaps with some expansion or enlargement this machinery would be capable of dealing with an income tax.

Next with reference to the estimate of a $2,000,000 yield on a Canadian income tax framed on the United States model, it is to be observed that this was apparently based on the United States results in the first year, or rather ten months' period of its operation. The receipts from the American tax in that first period were roundly $28,000,000; and taking Canada relatively according to population, a similar tax in Canada might be estimated to produce $2,000,000. However, the United States income tax in the fiscal year ended June 30, 1916, produced roundly $120,000,000—viz., $52,000,000 from corporations and $68,000,000 from individuals. And in September, 1916, the rate of taxation was increased, it being estimated that in the fiscal year ending June, 1917, the "corporations alone will pay, $125,000,000. Now if we take Canada pro rata, according to population, it would seem that $120,000,000 as collected by the United States would indicate a Canadian revenue of $10,000,000. And there is the further point that in the United States the exemption limit is $3,000 per year. It would appear to be impracticable or undesirable, if an income tax were instituted here, to exempt all incomes up to $3,000. In all probability our exemption limit would be placed lower; and this might be taken as pointing to a larger per capita revenue here.

In his list of objections the Minister also mentioned that in Britain taxable incomes are largely derived from investments. "They have therefore a settled and permanent character, are ascertainable with fair accuracy and are capable of being levied upon at their source. With us this is not the case. "Circumstances have not greatly changed in this respect during the two years. While it is true that Canadian investors have meantime taken up the two domestic war loans the $200,000,000 of bonds so issued are expressly exempt from Dominion income tax. Should it be decided to put an income tax in force, the corporations would be required to shoulder increased responsibility and work. They would be obliged to take declarations from stockholders and holders of their bonds, and undertake other similar duties. It has seemed unfair that the tax on profits should be levied exclusively on business — large professional incomes escaping altogether.

Perhaps it will be deemed advisable to continue the excess profits tax while the period of abnormal prosperity lasts. So long as hundreds of industrial and mercantile concerns are making extraordinary profits, the Government will get more out of them by way of the business profits tax than it would in the form of a general income tax. But when, at or around the end of the war, the abnormal earnings disappear, the yield from the excess profits will probably slump, and apparently that will be the time for the Government to replace it with a general income tax, which would press more evenly on the different classes. At that time, too, there may be a slump in imports which would react severely on the custom revenue.

Britain's Financing in the War and After

By HARTLEY WITHERS, Editor of the "Economist," in the N. Y. Journal of Commerce.

Huge as is the cost of the present war, Great Britain is paying for it as it goes on.

This statement is apt to be taken as a heresy, but is actually a truism. It conflicts with a commonly received delusion on the subject of war, and the way in which it is paid for. This common delusion cherishes the belief that war can be and is paid for out of capital, or out of the production of posterity; that is, out of things made long ago, or out of things that are going to be made some day. In fact every war has to be paid for by somebody, as it goes on and out of current production. Accumulated capital is in the form of railroads, factories, plant, houses, tilled fields and other things that cannot be taken out and shot out of a gun, or used to feed or clothe soldiers. The production of posterity is equally useless for these purposes. Soldiers cannot eat the wheat that is still unsown, or wear boots made out of the hides of cattle not yet born. War has to be made out of the current production of mankind, and every article that an army uses has to be paid for, at or near the time of delivery, by somebody.

This somebody who pays may or may not be a citizen of the nations at war. If a warring nation borrows money from others, then those others pay to that extent for the war as it goes on, and the borrower pays them back, with interest, out of its future production. This means that the future production of one nation is to that extent transferred to the citizens of another, but posterity is not as a whole poorer by reason of this transfer. Those who paid for the war while it went on are richer, those who borrowed instead of paying are poorer.

Borrowing for War.

Again, if a nation sells its investments abroad in order to find money to pay for war, it buys current production by selling claims that its former production has given it for interest and repayment. When an Englishman sells Pennsylvania Railroad bonds to somebody in New York, that somebody in New York pays for food and munitions that England needs. But the world's accumulated capital is not thereby diminished. The Pennsylvania road continues to earn profits and the only difference is that henceforward it pays interest, and will some day pay the value of its bond to an American instead of to an Englishman.

Britain's Borrowing and Lending.

By these methods, though the war is paid for by somebody as it goes on, a nation can pledge its future production and realize the fruits of its former production. Both these methods Great Britain has used. She has borrowed chiefly from America, and sold securities chiefly to America. She will therefore have more interest to pay to America and less to receive from America. But it is safe to say that the whole extent of her borrowing and of her sale of securities does not come to as large a sum as that of the loans that she has made to her Allies and colonies during the course of the war. These loans were estimated by the British Chancellor of the Exchequer in a speech that he made Aug. 10 going to amount to $4,000,000,000 on March 31st, 1917. It is now known that this estimate will be exceeded. Nobody knows the value of the securities that Great Britain has sold abroad, but the biggest estimate of it, combined with the sums she has borrowed, is comfortably within $4,000,000,000.

Great Britain then is paying what the war costs her—apart from the sums that she is finding for her Allies and colonies—as it goes on, and at the same time many classes within her borders are enjoying unusual prosperity. In other words, all the food, clothes and equipment required by her army and navy are being found out of her current production, either by being produced at home, or by being bought abroad by the sale abroad of goods and services now being produced at home. This she is doing while

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