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THE GENERAL FINANCIAL SITUATION

Under post war circumstances, the subject of taxation has become of vital importance to every business man, and in view of the inevitable fact that Canadian taxation policy is bound to be coloured to some extent by the policy followed by the United States, there is a good deal of interest to Canadians in the report sent to Congress by Secretary Houston of the Treasury Department regarding revisions of Federal taxation at present in force among our southern neighbours. The fact that these proposals have been put forward does not, of course, presuppose their being passed into law, but it appears probable enough that many of the suggestions made by Secretary Houston will eventually find their way upon the statute book.

Of considerable interest here is the round condemnation by the Secretary of the Excess Profits Tax. This tax, says Mr. Houston has not filled the theoretical grounds upon which it was enacted, and has been found to be wrong both in theory and political philosophy. He suggests that it should be replaced by some form of tax upon corporation profits, the present tax of 10 per cent. being in his opinion insufficient. In Canada, there is a very widely spread hope that the Business Profits War Tax will not be revived after 1920, but we think it probable enough that Canadian corporations are not therefore likely to find their taxation obligations limited to 10 per cent., or in the case of profits in excess of \$5,000, 10½ per cent. It is more likely that the tax on corporations will be raised to possibly 15 per cent. or even more, although, of course, there are as yet no indications of what may be the policy of the Minister of Finance in this connection in his next year's Budget. Mr. Houston's idea for the United States is a twenty per cent. rate with a higher surtax, plus an additional six per cent., whatever that may mean. His ideas in this connection are certainly not modest.

The Secretary makes some interesting points in reference to the matter of individual income tax. He declares in regard to the present rates of surtaxes on large incomes, which reach a maximum of

70 per cent., that their result is to encourage investment in tax exempt securities and that the only effective way to tax the rich is to adopt rates that do not force investment in such securities. In this connection, it is to be remembered, that this matter of tax exempt securities is, even proportionately, a very much bigger affair in the United States than it is in Canada. Here tax exemption is confined to the War Loans, a considerable proportion of which mature in the next five years, and are not likely, we imagine, to be refunded upon a tax free basis, except at an interest rate considerably reduced below the then normal for tax paying securities. In the United States, however, tax exemption applies to the securities of States and political subdivisions thereof, as well as to certain war loan issues, a fact which explains the amazingly low rates of interest at which even minor public authorities in the United States can borrow in these days. In the adjustment of taxes, Mr. Houston proposes to differentiate between income "saved" or re-invested and income "spent," the latter being taxed at a lower rate than the former. This idea is not new, and theoretically is attractive. So far as we are aware, however, it has not been adopted up to the present by any country which uses the income tax as a means of raising revenue, and we are not clear that the working out of it in practice has been seriously undertaken. Possibly, the idea would be more easy of adoption in the United States, where both realized profits and losses on investments are taken into consideration in Income Tax obligations than in Canada, where neither come into purview of the Income Tax authorities. There is however, an obvious attraction about a proposal to discriminate in matters of taxation in favour of the good citizen who advances the permanent prosperity of the country by thrift and the investment of a portion of his income, as against the spendthrift, who squanders his annual all in riotous living. The scheme has clearly considerable advantages over the existing luxury taxes, while it achieves the same end. On the smallest incomes, such a