# The Proposed Tax on Foreign Securities

## *This Action Likely Proposed to Discourage Further Investments in Foreign Securities by Canadian Corporations.*

By H. M. P. ECKARDT,

In the concluding paragraph of the article on Attracting Subscriptions to the New War Loan, published by the Journal of Commerce on August 29th, a brief reference was made to the proposal, recently emanating from Ottawa, that Canadian holdings of foreign securities be heavily taxed with the object of forcing sales thereof. The dispatches from Ottawa relating to this matter stated that at the next session of Parliament legislation would probably be carried through placing a special tax on the income derived by Canadian holders of these foreign securities. The news items being of a semi-official character, the financial community has not as yet made up its mind as to whether the Finance Minister really intends to put such a tax into effect or whether the intimation was merely a minatory gesture designed to prevent further investments of Canadian funds abroad. A considerable number of observers apparently incline to the belief that the announcement was meant to be admonitory; and the fact that it followed quickly after the action of a couple of important municipalities in buying blocks of Anglo-French "fives" in the New York market, lends color to this theory.

### The British Government's Plan.

As far as can be seen the mere threat of introducing such legislation coupled with the advertised requests that Canadians save their money for the new war bonds, has stopped the movement of our funds into foreign bonds. However, as it may possibly be designed also to force sales of existing investments in foreign securities, it is worth while to discuss the effects of a special income tax of the kind referred to. The idea appears to have been derived from the plan put in force by the British Government to compel British holders of foreign securities to sell or deposit them with the Treasury. It will be remembered that in response to the first appeal of the British authorities, the banks, insurance companies and other investment corporations sold or handed in large blocks of American bonds and stocks which helped materially to maintain the exchange with the United States. Many private investors also responded fully to the appeal, but it was soon ascertained that a vast body of foreign securities of the classifications designated, held by individuals, had not come in; and after a ecrtain period of time had passed, as it seemed necessary to take further special action to strengthen the exchange position at New York, the extra tax of two shillings in the pound was imposed on the income derived from foreign securities called for in the Government's schedule, and not deposited with the Treasury. This tax represents 10 per cent of the dividends and interest received on these securities; and when such a heavy impost was added to the burdensome income tax already existing, it became almost a matter of necessity to sell or turn in the securities. So, as soon as the extra tax went into effect a new and tremendous flow of foreign securities into the British Treasury began, and many of these have figured as collateral to loans in New York, first against call loans and later against the $250,000,000 loan of a couple of weeks ago.

### Maintaining American Exchange.

The British Government's action was prompted by the great difficulty in maintaining the American exchanges. Its measures were effective because there was, in the United Kingdom, a vast holding of foreign bonds and stocks. Those who sold out their Americans, rather than deposit them with the Treasury on the understanding that the Treasury might sell them if necessary, placed the proceeds in large part in British Government bonds. The sales in the first place created funds in New York, and even if British securities other than Government bonds were purchased with the proceeds, the effect on the foreign exchanges would be equally beneficial. Of course, when the proceeds went into war bonds the Imperial Treasury would derive the maximum benefit or advantage — for then the process meant that the home investors were lending money to the Government to prosecute the war and providing the proceeds in the form of New York funds.

Now, in considering the possible effects of similar legislative action in Canada, the first thing to note is that the Dominion is not experiencing the same diffculty as England experiences in maintaining the exchanges with the United States. The war caused a tremendous increase in Britain's imports, while at the same time exports were heavily reduced; but in our case the exports have expanded in sensational fashion, turning our trade balance into a wholly unusual export surplus, which, of course, tends to keep the foreign exchanges in fairly satisfactory shape. Next there is no vast holding of foreign securities here which could be forced into sale. Canada has always been a borrowing country and there are comparatively few individuals holding large amounts of American or other foreign bonds and stocks. However, some of the financial institutions of the Dominion have respectably large amounts of foreign securities in their possession. The chartered banks undoubtedly have a considerable amount of American railway bonds, bought some years ago. Perhaps it would be safe to say that their holdings of foreign bonds would amount to $30,000,000.

### Canadian Holders of American Securities.

In following out their conservative investment policies the bankers have made it a rule to put only a moderate amount into any one security unless it be that of a Government or a large municipality. Thus the holdings of bonds of any one railway might be limited to $100,000, or $200,000 in special cases. The limit for the bonds of any industrial or other corporation would be placed at a lower figure. Furthermore, as the bond holdings would probably be required to serve as collateral to advances or acceptances granted by London bankers, it has been necessary to have a large proportion of the whole consist of securities with an international market. So, as the steam railway bonds were recognized as most desirable, and as Canada has only a few railways whose bonds had the desired standing, the banks were more or less compelled to take the American railway bonds. Then the other great investment corporations, too, are obliged to be conservative in limiting the amounts they put into a single security, and in case of the insurance companies they are obliged to invest in the securities of foreign states in order to obtain permission to carry on business in those states.

The Canadian Pacific Railway Co. is a large holder of American railway securities. According to the 1916 Annual Report the C. P. R. has in its treasury $29,000,000 par value of bonds and stock of the Duluth, South Shore and Atlantic Railway, and $23,000,000 of securities of the Minneapolis, St. Paul and Sault Ste. Marie Railway. It is by means of these holdings that the C. P. R. controls the two American systems just mentioned; and if the securities were disposed of, control would be gone and the whole transportation system of the C. P. R. would perhaps have to be readjusted.

These are the principal holdings of foreign securities domiciled in the Dominion. Outside of them there are sundry holdings by individuals. In some cases wealthy Americans coming over here to reside have retained their interest in United States stocks and bonds. There is always in Montreal and Toronto a more or less important speculative holding of American stocks. Clients of the brokerage houses hold thousands of shares of Wall Street stocks on margin, but as probably 80 per cent of the market value of the stocks would be advanced by New York, the investment of Canadian funds in this form does not attain such important dimensions. There is reason to believe that the response from the investing public to the Government's second appeal for subscriptions to war bonds will be all that could be desired; and perhaps a very successful flotation would serve to make the proposed special tax on foreign securities appear entirely unnecessary. It is well known that the banks and other corporations have been letting their foreign bonds liquidate themselves as the various issues matured. Except for the subscriptions to the early British war loans, the British treasury bills taken in connection with the munition contracts, and a moderate amount of French Government bonds taken to facilitate purchases here, all new acquisitions have been in the form of Canadian bonds.

There would be a certain amount of hardship involved in placing an oppressive tax on foreign securities bought before the war, particularly in in cases where the holders cannot as yet sell without loss. On the other hand there would be less objection to a tax on foreign securities bought after the imposition of the tax, as in that case people would know that in buying the securities they made themselves subject to the tax. But even if not retroactive, such a tax would have many bad effects; and if enacted should be abolished as soon as circumstances permitted. It is to be hoped that the success of the pending war loan will be such as to relegate the proposition to the background.

## SHIPPING PROFITS.

The Boston News Bureau in a recent number states that one of the world's foremost shipping authorities is of opinion that high shipping rates, considerably above normal, will continue three years after peace comes. He estimates that shortage in tonnage after the war will be 25% and will not be totally made up until fourth year after the war. Destruction of tonnage by the war will cause a shortage of English ships, but England, the United States, Germany and Japan, combined, are building as much new tonnage as destroyed. The world's shortage will grow out of failure of shipping companies to restore the normal increment supplied out of regular normal 4% depreciation and additional normal 1½% allowed for marine losses. Here is a total of 5½% which, stretched over three years, will amount to 16½%. During the war, allowance for ordinary marine losses should be calculated at about 5% instead of 1½% and this difference, in three years, will make up at least 9% more. Tonnage which ought to be replaced, therefore, but which is not being replaced ,is about 25%. After the war it will take four years of shipbuilding at double normal rate to make up for the 25% shortage. The year after the war will be like 1913, which proved the best shipping year for a decade because there was a shortage of bottoms.

## THE FARM MORTGAGE HANDBOOK.

The Farm Mortgage Handbook, by Kingman Nott Robins, is appropriately styled "A Book of Facts Regarding the Methods by Which the Farmers of the United States and Canada are Financed." The author is treasurer of the Associated Mortgage Investors, Rochester, N. Y., and vice-president of the Farm Mortgage Bankers, Association of America.

Mr. Robin's book is a clear and terse exposition of the subject of rural credits. It describes in chapters devoted to that purpose the methods of negotiating and marketing farm mortgages. The author defines the farm mortgage as publicly offered for investment as an investment in the form of a loan to an individual farmer or farming partnership or corporation, secured by a first lien on improved producing farm land worth at least twice the amount loaned, and embracing two-fold security in the sense that the borrower's personal worth as well as the land under mortgage is pledged.

The dimensions of the farm mortgage loan business in the United States may be appreciated from the fact that the amount of such mortgages held on June 30th, 1914, by all United States reporting banks secured by mortgages on farms was $542,100,000 and the amount held by 148 life insurance companies was $654,650,000 or $1,196,750,000 for both groups.

## PERE MARQUETTE AFFAIRS.

Plans for the complete reorganization of the Pere Marquette Railroad, with capital stock of $105,000,000 and elimination of the receivership were approved by the Michigan railroad commission recently total bond issue, as approved, is $36,000,000, preferred stock $24,000,000 and common stock $45,000,000. The plan provides that fixed interest charges will be reduced from $4,000,000 to $1,500,000 per annum and that $16,000,000 of new funds will be used to discharge receivers, certificates and to purchase new equipment.

## CANADA'S INLAND REVENUE.

Inland revenue for July, of which the official figures are out today, totalled $2,066,949, of which $1,925,161 came from excise on spirits, beer and tobacco. The special war tax produced $98,512. The increase in the total is about $200,000.