How the Mergers Affect Bank Taxes

The mergers will have some effect in cutting down the provincial taxes payable by the merged institutions as well as those arising from the reduction of the municipal property taxes in cases where costly main offices in the large cities are transferred to other holders.

By H. M. P. ECKARDT.

Among the factors which have operated to induce various bank directorates to give consideration to the question of amalgamation, a prominent place must be assigned to the rapidly rising cost of conducting the business. In banking, as in other lines of activity, almost every half year since the opening of the war has seen a substantial increase of the cost ratio. The bills for stationery, which always represent an important outlay, have been growing larger and larger; the item of salaries, notwithstanding the enlistment of many employees commanding good salaries, tends to higher and higher figures, taxes have been increased, and various other costs have grown greater. In the cases of the recent mergers it has been estimated that consolidation will serve to neutralize or offset in some degree the generally upward tendency of the expenses. The mergers also promise to give a measure of relief from the staff shortage created by the voluntary enlistment of male employees and the drafts under the Military Service Act.

With reference to the effect of the recent mergers in giving relief from taxation, it is to be observed that the exigencies of the war have forced the Dominion, the provinces and the municipalities to impose new taxes and increase old ones; and the banks have had to meet their full share of the larger levies. The Dominion war taxes pressing most heavily on banks are the tax on note circulation, which virtually represents 1 per cent on capital; the increase of postage rate on letters and the stamp tax on cheques and other bills. Banks are liable also for the excess profits tax, but if the amount due under this tax does not exceed the amount paid in the form of circulation tax, they are not required to pay any excess profits tax. If the excess profits tax for which a bank is liable is greater than the amount of its circulation tax, the bank is required to pay the amount by which the circulation tax is exceeded. Apparently the new Dominion income tax will not directly represent any additional burden upon the profit and loss account of the banks. A corporation is not required to pay income tax unless the 4 per cent. on its net income exceeds the amount of its excess profits tax; and, as explained above, the circulation tax paid by the banks is counted as special taxation equivalent to the same amount of excess profits tax. So, as in most cases the banks' excess profits taxes have been fully covered by the payments in connection with the circulation tax, the income tax liability of the banks is likely to be covered by the circulation tax payments. In other words 4 per cent on the banks' net income is not likely to exceed the 1 per cent on capital stock now paid as circulation tax.

The municipalities in many instances have been obliged to increase their property tax and also the levies made on business done; and some of the provinces also have put new special imposts into effect. It will be understood that with the amalgamation of two banks, each of which has costly main offices in the principal cities, a large annual saving would be effected in case of the property tax as soon as arrangements were completed for bringing the business of the main offices in each city under one roof and for disposing of the discarded office. In some cases also there might be substantial reductions effected in municipal business taxes. The provincial taxes, too, would be cut down to some extent by means of the mergers. In cast of these there is more definite information available than regarding the municipal taxes; and it will be interesting to note the results obtained in the several provinces.

ONTARIO TAXES.

Ontario taxes banks annually as follows: One-tenth of 1 per cent on the whole of the paid-up capital; $1,500 for the principal office in Ontario; and $50 for each additional office. Unless the merger resulted in a net reduction of the consolidated banks' capital, the capital tax would not be affected. If the capital were reduced, the reduction of the tax would be $1,000 per year per $1,000,000 of capital reduction. As tax upon the head or principal office in Ontario the consolidation would pay $1,500 per year, this comparing with $3,000 per year paid by the two banks while operating independently. Quebec province has a graded tax on bank capital—$100 per $100,000 of capital up to $1,000,000; and $50 per $100,000 of capital in excess of $1,000,000. Then the principal office in Montreal and in Quebec city pays $200; each other office in those cities, $150; and each office in the province elsewhere than in Montreal and Quebec, $30. In this case the amalgamation would not effect an important reduction of the provincial taxes unless a considerable number of branches in the two principal cities were closed.

PRINCE EDWARD ISLAND.

Prince Edward Island is not affected by the recent mergers. The provincial tax there is on the volume of business — deposits and loans. New Brunswick and Nova Scotia are both interested in the Montreal-British merger. New Brunswick's provincial tax provides for an annual payment of $1,000 for each principle office in St. John, and $100 for every office in the province. The Nova Scotia tax calls for $1,000 for the main branch in Halifax city; $100 per year per branch for the next ten offices; and $50 per year per branch for other branches. Only one branch in any city or town is taxed. So in the two provinces the merger referred to will apparently result in a saving of $2,000 per year in provincial taxes, when the main offices in Halifax and St. John are combined.

MANITOBA.

Manitoba's tax is $1,200 on the principal office in the province; on the next four offices $300 each; on the next 10 offices, $150 each; and all other branches, $50 each. Only one branch in any city, town or village is taxed. Here, a reduction of $1,200 per year will apparently be effected by each of the three mergers upon the going into effect of the amalgamation. Saskatchewan's provincial tax calls for $300 per year from every branch in an incorporated city; $100 from every branch in a town; and $25 from every other branch. All three of the mergers lately announced will apparently lead to reduction of the provincial tax payments in Saskatchewan, but the reductions will not be so important as in Manitoba.

ALBERTA.

Alberta taxes banks $1,000 per year on the principal office in the province, and $125 per year on each other office. All three of the merged banks are represented here and each consolidation will save at least $1,000 per year in connection with the tax on the principal office. All three of them are represented, too, in British Cloumbia, in which province the principal office is required to pay $1,500 per year, and each other office $250 per year. In British Columbia it would seem that the Montreal-British consolidation will effect its greatest savings, as regards provincial taxes, when the offices of the two banks are finally combined in the places where they have been operating under competitive conditions. Besides the annual saving of $1,500 in connection with the tax on the principal office in the province, there will be a saving of $250 per year in regard to each branch point at which the business of the two banks is combined. As the Montreal and the British are in competition at five other points within the province, consolidation of the business at these five points would reduce the provincial tax in the Pacific Coast province by $1,250 per year.

Thus it will be seen that the mergers will have some effect in cutting down the provincial taxes payable by the merged institutions, but, as remarked in a foregoing paragraph, the savings thus effected will probably be of less importance than those arising from the reduction of the municipal property taxes in cases where costly main offices in the large cities are transferred to other holders. In some instances such sales or transfers will not be easily or quickly effected during the term of the war; and large office buildings sold under present conditions might represent a considerable sacrifice. There is also the consideration that continuation of the war for several years would probably cause the various taxing bodies to increase their imposts; but even in that event, the probability is that the combinations would result in making the consolidated banks liable for a relatively smaller share of the increased taxes than if they had retained their separate existence.

A BRIEF SUMMARY BASED ON AUTHENTIC STATISTICS, OF THE CURRENT STATE OF BUSINESS IN CANADA.

One of the danger signals to Canadian business in 1912-13 was the marked decrease in savings deposits while current loans continued to expand. As savings deposits are the basis on which the banks make advances to business, the banks were forced to take in sail; business expansion halted and some depression set in.

The radical change in the situation existing then and now is shown in the chart given above. The curve of savings deposits has caught up with and crossed the curve of current loans and the black area depicts what could ordinarily be considered as the excess of the banks' loaning power for commercial purposes. Because of the large profits of the past few years, business is financing its needs at a period of the greatest activity in the history of Canada, with prices for labor and material abnormally high, with little more assistance from the banks than in 1912. Meanwhile, the increase in savings deposits is to be reckoned in hundreds of millions.

Because of this excess of loaning power, the banks have been able to make large advances to the Imperial government, continuing a flow of orders to Canada which became threatened by Britain's problems in finding means for payment.—Greenshields and Co.