

The Chronicle

Banking, Insurance & Finance.

ESTABLISHED JANUARY, 1851

PUBLISHED EVERY FRIDAY.

Vol. XXXIV. No. 23

MONTREAL, JUNE 5, 1914.

Single Copy 10c.
Annual Subscription \$5.00

THE BURDEN OF TAXATION.

The extravagance of Canadian administrative bodies combined with the ignorance of the average legislator regarding correct and just principles of taxation, is rapidly developing a situation of dangerous import to Canadian business which will at an early date require to be frankly combatted if it is not eventually to have serious consequences. The banks, the insurance companies and the loan companies are the principal sufferers through the mischievous energies of taxing authorities who can see no further than the end of their nose and who apparently care nothing as to the effect of their taxation policy provided that the funds they require come easily into their treasuries. The case of the banks was put forcibly and frankly by Col. D. R. Wilkie at the recent meeting of shareholders of the Imperial Bank. Col. Wilkie pointed out that in the last year provincial taxes on banks have been nearly doubled in British Columbia and have been nearly trebled in Ontario, and, speaking generally, provincial taxation has already got to a point where it is a deterrent to the opening of new branches and to the granting of banking facilities. In the case of the insurance companies and the loan companies, additional taxation has also been imposed during the last year by various provincial authorities, and there is no apparent reason, except the moderation of the taxing authorities themselves, why the burden should not be increased further during the ensuing twelve months and so on, year by year, *ad infinitum*.

The same legislators who are constantly imposing these new burdens upon the banks, insurance companies, and loan companies, are, curiously enough, the very folk who are constantly raising a howl about the high rate of interest and the poor facilities given by these business corporations. They fail entirely to see that this foolish taxation policy is itself responsible for high rates of interest. Neither the banks, the insurance companies or the loan companies can afford to pay these taxes themselves and still go on with their business as if they were not paying them. What happens is

that, as far as possible, these taxes are passed on to the public. The insurance companies, in their investment operations, and the loan companies, are probably better able than the banks to pass on this burden directly, and in some cases the course has been adopted in provinces where taxation of these companies' income has attained to outrageous proportions, of requiring the borrower, as a condition of the loan, to pay this tax. The banks are not in so good a position to pass on this tax directly, but it is evident that the effect of high rates of taxation in any particular district must be to raise the average rate of discount in that district, and to make the banks very chary of increasing the number of their branches and of the granting of banking facilities.

Since the average rate of earnings upon the shareholders' funds of the Canadian banks is only about 8 per cent. per annum, it cannot be pretended that the exorbitant taxation now being freely imposed throughout the Dominion is justified by the large returns obtained by bankers and bank shareholders as a result of their investments. Neither are the returns secured by insurance companies and loan companies so large that they can afford to view with indifference the heavy impositions placed upon them. Unless capital placed in a particular business can earn as much in that business as if it were otherwise employed, it will not stay in the business but gradually gravitate elsewhere. The impositions upon the banks, insurance companies and loan companies by many taxing authorities in Canada are the result of a short-sighted policy which does more harm than good. In the case of the insurance companies, there is the double grievance that taxation is placed upon what is itself a tax—*i. e.*, the insurance premium—and the funds necessarily accumulated from premiums. To expect the average legislator, however, to see the point of the injustice of this double taxation of the thrifty, unless the argument of votes is presented to him, is too much to expect, and it will require a careful and prolonged campaign of education among policy-holders before anything very definite can be achieved in this direction.