

PHASES OF TAXATION—PROFESSOR HAIG'S REPORT

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of "any interest on borrowed capital from which the income is derived if such interest is paid to a lender who is not a resident of the province or to a company as lenders of which company does not transact business in the province and which does not pay taxes thereon in the province." This Act has been on the statute book for many years but until recently no effort has been made to put it in force. It would seem that the old adage that the best way to get rid of a bad law is to enforce it, has much to commend itself, and perhaps this is the motive back of the Government's attitude in making some effort toward bringing this phase of the Act into operation. This part of the Act is certainly unjustified and should be no longer tolerated than it takes to be wiped off the statute book. When a country is to be developed by borrowed money from extra provincial sources then such a deterrent influence to the borrowing of money outside of the province should not be permitted. Professor Haig makes this point quite clear. A similar situation arises with regard to the present Act which does not allow management and directors fees to non-residents to be exempted from deduction from operating revenue. Professor Haig takes up the question of deduction from income of taxes paid to the Federal Government, of local taxes on business buildings occupied by owners and of deductions for bad debts. He then goes into a discussion of the income tax rates as now enforced and comments unfavourably on the present existence of irregularities in applications of the Act involving in some cases exemption from income tax and in other cases involving an income and one specific tax and still in a third classification involving an income and two specific taxes. These irregularities amount to a serious lack of equity. Under the subject of specific taxes generally levied on a royalty basis, Professor Haig discusses canneries, coal and coke taxes, mineral taxes, timber licenses and royalties and on other specific taxes he comments on the tax on unworked crown granted mineral claims, inheritance tax, poll tax, motor vehicle tax and amusement tax.

In commenting on the distribution of the present tax burden, Professor Haig takes up the various economic interests involved, pointing out the exceedingly involved basis for the existing system of taxation and showing that the system needs simplification and equalization. He discusses the distribution of the tax burden between the province and the municipalities and between the province and the school districts. In the administration of the tax system Professor Haig shows that the present system is at fault. He states that the efficiency of the administration organization is to be judged by the fullness and accuracy of assessments and the promptness and completeness of collection. On neither account can the administration in British Columbia be said to have achieved success. The present assessment, need for comprehensive re-organization and the existence of a permanent tax board are waged. As the evidence that the administration of the tax system is not working out properly he shows that of a total tax levy in 1916, \$2,643,204 there existed the same date a total of accumulated arrears of \$3,698,195.

Professor Haig summarizes his conclusions and suggestions as follows:

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The Present Financial Difficulties are not due to a Sudden Break-down in the Tax System.

The stringency now being experienced is due primarily to the forces which have weakened the demand for real estate. The yield of the tax system has declined somewhat, but this is because of the disappearance of the receipts under the "Chinese Restriction Act." The slump in the receipts from land-sales and from fees dependent upon such sales is the fundamental cause of the present embarrassment.

It is unwise to expand Taxation to make good the Entire Differences between the Receipts of the Most

Prosperous Years and the Years of Depression.

If the scale of expenditure is maintained on the level of the total receipts of the most prosperous years and taxation depended upon to supply the deficiencies caused by the slump in other sources of revenue, the result will be a strain upon the tax system probably too great to be borne. In the present instance, for example, this policy would involve trebling the tax rates at a time when the taxpayers are least able to assume new burdens. It is essential that a rational control be exercised over expenditure in periods of prosperity which will make unnecessary excessive taxation in times of depression. The adoption of such a policy would prevent the periodical recurrence of the present difficulty.

The Existing Tax System is unequal to the Demands of the Present Situation.

It is unreasonable to expect the tax system in its present form to provide the funds which are necessary by the simple device of increasing rates. The crudeness of the taxes, which passes unnoticed when burdens are small, involves intolerable injustices when the burdens become large. Administrative shortcomings which are insignificant when rates are now become fatal when rates are increased to the levels which obtain as the result of the readjustment of 1917.

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