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PROBLEMS OF TAXATION

The tremendous financial problems with which the world is faced at the present time can be ultimately comprised under two headings, those of production and those of taxation. The problems of production include all the various tangles, now awaiting solution with labour, with improved methods in agriculture and in manufacture, with transportation. The problems of taxation include the task of caring for the enormous national debts which have been created as a result of the war, and of potential obligations in the shape of pensions, and what is vitally important, of so distributing the burden of taxation, that while providing for these national needs, production is not hindered or thrift and the habit of accumulation penalised, or the standard of living of any class of the community lowered below the line of normal efficiency.

Here in Canada for several generations to come, taxation will certainly occupy a place of prominence in the national economy inconceivable prior to 1914. The war has resulted in a revolution in taxation methods through the enforced adoption by the Dominion Government of methods of direct taxation which, before the war, had been left wholly in the hands of the provinces, and the bringing into force of what prior to 1914 would have been inconceivable. In the Business Profits War Tax, there has now been in force for five years a tax which is admittedly an extremely heavy one, but which those who are subject to it hope will prove to be temporary. In the Income Tax there has been begun a system of direct taxation which will undoubtedly be permanent, but is only at the commencement of what is likely to become in the long run a very elaborate organization. The present rates of taxation, while they have not yet reached the maximum levels of those of the United States, or of Great Britain, are yet high enough to be felt as a distinct new burden by most members of the community.

As regards the Business Profits War Tax, the fact that in the recent Budget this tax was renewed for a year on the basis of the full 1918

scale of taxation, was undoubtedly an unpleasant surprise to the business community as a whole, among whom in many quarters hopes had been entertained that the close of the war would see the partial abrogation, if not the entire cessation of this tax. The urgent necessity of securing sufficient revenue was apparently the deciding factor in its continuance. As regards the future of this tax, it is perhaps premature to speculate. It may be suggested, however, that present circumstances indicate that the tax is not likely to be entirely abrogated for several years, but that with a decline in the demands upon the Dominion's exchequer from this war, and immediate post-war level, some decrease in the rate of taxation at present in force may be expected.

The taxation problem in Canada has been made more interesting by the fact that within the last few weeks, one of the political parties in the Dominion has definitely committed itself to a low-tariff policy. With the purely political aspects of this question, this journal has nothing to do. But as regards the financial side, it may be pointed out that hitherto the tariff has been a main source of the Dominion's revenue, and that any steps which would involve a reduction in revenue from that source, would necessarily result in an additional direct taxation. That has been shown in the recent Budget, where minor alterations in the tariff resulting in the reduction of revenue, have had to be compensated for by increases in the Income Tax. As one political party has committed itself to a low-tariff policy, and the present Government will take the detail into consideration of the tariff in hand at an early date, it is clear, viewing the question of taxation solely from its financial standpoint, and having no regard to its political aspects, that direct taxation will in future play an increasingly and important part in the finances of the Dominion.

The question then arises, what form shall these taxes take in order that the least possible injury to the economic prosperity of the Dominion as a whole, may be done? There is a good deal to be said from this point of view in favour of a system

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