BRITISH COLUMBIA

FINANCIAL TIMES

A Journal of Finance, Commerce, Insurance, Real Estate, Timber and Mining.

Published on the first and third Saturdays of each month at Vancouver, B.C., Suite 421-422, Pacific Building, 744 Hastings St. W. Telephone, Seymour 4057.

BRADFORD W. HEYER, Editor and Publisher.

Address all communications to British Columbia Financial Times. Advertising Rates on application.

Admitted to the Mails as Second Class Matter.

Annual Subscription: Canada, $2.00; Great Britain, 8 shillings; United States and other countries, $2.50; single copies, 10 cents.

VOL. VI. VANCOUVER, B.C., OCTOBER 18, 1919 No. 20

A great deal of misconception and apprehension exists as to the taxable feature of the forthcoming Victory Loan and unless the facts are brought out in the public press and answered by the canvassers when the campaign opens this feature might seriously militate against the whole hearted public participation which the loan should enjoy.

We think that the Government is to be congratulated on seeing its plain duty by refusing income exemption to holders of the third Victory Loan, and we are of the opinion that had the previous five Loans been taxable it would not have made the slightest difference in their reception by the public of Canada. The Financial Press of Canada took the high ground that this exemption should be removed from the second Victory Loan when the matter came up a year ago, but they could not persuade Sir Thomas White, Finance Minister at that time, to make a change, chiefly on the ground that he would not dare imperil the getting of the maximum subscription from every person in Canada because of the supreme urgency for money by removing the tax exemption.

While the five previous war loans are exempt from taxation by any law now in force or that may be in future imposed, it is anomalous that British Columbia holders of Dominion war loans are not except from income taxation by the Province and similarly British Columbia bonds are exempt from Provincial taxation, but not exempt from Dominion taxation.

The easiest way for the individual to treat the taxable feature of the new Loan is to consider that in making up his Dominion tax statement he takes into the statement the income derived from this third Victory Loan, whereas formerly he did not state what his income was from his Dominion war holdings. For the average business man the taxable feature involves an inconsiderable amount. Under the 1919 law income is exempted for single men under $1,000 and for married men without children under $2,000. If, for instance, a single man derived his entire income from the third Victory Loan paying 5½% interest, he could hold $18,180 worth of bonds before he would come under the operations of the Act, and similarly the married man without children could hold $36,360 worth of Victory bonds before he would be taxed on his income by the Dominion Government. It would therefore appear that for a single or a married man as above, his holdings would have to be considerable before he would pay any tax to the Dominion Government on account of his holdings of this loan. Let us take a typical case of a married man enjoying an income of $5,000 a year, $4,000 being derived from his business and $1,000 derived from Victory Loan holdings which from what has been said above will involve an investment of over $18,000 in Victory Bonds, which we venture to say is very exceptional. In this case he would be paying 4% tax on $2,000 above his exemption, and $1,000 on account of Victory Loan income, making $3,000 and involving a tax of $120. For his holdings of $18,000 of bonds he would pay an increased tax of $40 per year over and above his tax on income derived from his business. Placed on a percentage basis—for his holdings of $18,000 of Victory Bonds he would pay 2 2-10 mills on the dollar of capital involved. This percentage will appeal to the citizen when he considers that the average municipal tax on land held in a municipality in the Province runs from eight to fifteen times as much. Of course, as the income of the business man increases from the typical instance of $5,000 per year, mentioned above, the tax increases; yet the situation is similar whether his income is derived from his business or from his business and other security holdings including this third Victory Loan.

When it is taken into consideration that of $610,000,000 of new money raised last year over $500,000,000 was subscribed by the people of Canada in amounts under $15,000, it will be seen that the taxable feature affects very few in its operations.

On the other hand, the tax exempt feature is of the greatest concern to the large investor or corporation who in the one case derives his income from his security holdings or in the case of the corporation having invested large war profits in previous Loans. When we consider what the advantage is to the wealthy investor and the institution having profited greatly out of the war, we fail to understand why they have not participated in previous loans to even a greater extent than they have. There can, however, be little doubt that there is a gradual movement of the first and second Victory Loans from public holdings to these two classes and this movement will accentuate itself in the years to come with a gradual appreciation in price and consequent decrease in income yield. To the average business man, employee, or small holder, the only disadvantage in the purchase of the third Victory Loan will be that the appreciation in value will not be as great as will be witnessed with the five previous loans on account of their gradual movement into the strong boxes of those who benefit so largely from their tax exemptions. We anticipate that the third Victory Loan will enjoy a premium on the purchase price of par and interest, but at that, the premium will not be as great as in the previous loans.

We urged last year during the Victory Loan campaign that the purchaser should select the 15-year term bond as against the shorter term bond of five years. As the public gather experience in investing they see now that the term of the bond has practically no influence upon its prompt sale in case they wish to dispose of their holdings. The fifteen year bond of the last loan is now quoted at approximately 104 and accrued interest, whereas the five-year bond is only slightly above par and accrued interest; therefore, in the desired liquidation of holdings the purchaser of the 15-year bond could have sold his holdings at a premium of 4% whereas the purchaser of the five-year bond could only avail himself of a slight premium. We are of the opinion that the same thing will hold in this next loan and that the public in making a selection would be wise in selecting the longer term bond as against the shorter term bond, since the saleability of either bond is the same, and is at that most rapid of any security in Canada.