

BUSINESS PROFITS WAR TAX

Sir Thomas White Analyses Its Principles—Question of Money is of Secondary Importance

The following are extracts from the address of Sir Thomas White, finance minister, during the budget debate in the House at Ottawa last week:—

The excess profits tax which I introduced last year was limited to three years, to three yearly accounting periods expiring after December 31st, 1914. Reference has been made here this afternoon to the fact that only \$12,500,000 was obtained the first year. But the first year was the year following the outbreak of war, when business was completely dislocated in this country. I stated, when introducing that taxation, that we should derive a much larger amount for the second accounting period. Now, the present taxation applies to the last accounting period; in other words, to the accounting period ending after December 31st, 1916.

Profits to Second Place.

Instead of taking 25 per cent. of the profits in excess of 7 per cent., which is the amount allowed incorporated companies, from 15 to 20 per cent. we are taking one-half the profits, and from 20 per cent. upwards 75 per cent. of the profits. Now, that is a very heavy tax; there is no question about that. It has been brought to my attention that some companies are making from 75 to 100 per cent. on their capital, and, of course, the taxation they will have to pay will be very large, but I submit that that is not the real question before the committee and the House. It is not a question of whether the tax is high, but whether it ought to be paid at this time. This is a time at which the people of this country are making immense sacrifices.

The making of profits, highly desirable in time of peace, and not undesirable, within bounds, in time of war, must take an entirely secondary place; that is the opinion, I think, of all thoughtful people in this Dominion. A mere money question becomes of secondary importance; it is of paramount importance in time of peace, but of secondary importance in time of war. The loss of money or the taking of money by taxation is as dust in the balance compared with these other losses that are taking place in the homes of this country. I do not believe myself that a man who is making 100 per cent. has any right to complain if the government steps in and says it must have 50 or 60 per cent. of their profits, and I believe that public opinion will sustain this taxation measure on these grounds, even if some capital that might have come into Canada does not come in by reason of the imposition of this tax.

Capital Will Come Here.

There is no reason why capital seeking investment should not flow into this country to-day notwithstanding the taxation. Look at the taxation of the United States, actual and prospective. I think the business man of the United States, as one of their leading men told me over there the other day, would not be deterred by this taxation measure from coming into Canada, because he is going to be pretty heavily taxed at home anyway. So that argument is not of very much weight, even from a business standpoint. The people of this country demand that men shall not be permitted to make undue profits in time of war. I say undue profits; I believe the public are quite willing that men should make reasonable profits. It has been said that men will not put forth an effort if we are going to take away 50 or 75 per cent. of their excess profits. I do not believe that is so. I do not believe that any patriotic man will relax his efforts because the government intends to take 50 per cent. or 75 per cent. of his excess profits; I have too high an opinion of the people of this country to believe it.

It must be remembered that under the excess profits taxation we are not taxing capital; the very principle of this measure is the taxation of profits. If profits are abnormal, it must be owing to war conditions; that is, money is being made out of the war, or notwithstanding the war. But take the case of the man with investments, which yield him an income of \$50,000. That would represent 5 per cent. on an investment of \$1,000,000. Now, if you have a company with a capital of \$1,000,000, its annual profits would be exempted up to \$70,000—that is 7 per cent. on its million-dollar capital.

The principle of this tax, I submit, is sound, that if there are firms, companies or businesses in Canada which

in war time are making large profits, they must give a substantial portion of those profits to the Dominion government for the purpose of assisting in carrying on the war. That is the principle. If a company has a capital of a million dollars and is not making 7 per cent., we do not tax that company, notwithstanding that it has a capital of a million dollars. I think that is just, for this reason, that that company may have a capital of a million dollars, and yet it may have a thousand shareholders, each shareholder being interested only to the extent of \$1,000. We know that that company is an entity, but it is made up of a thousand individual shareholders. We are not taxing that capital if they are making less than 7 per cent., but if they are making 40 or 50 per cent., we say: You are making a profit away beyond what we think you should be making in war time; you are making it out of munitions, or out of material which goes into the production of munitions, or out of supplies or other business, and you are making abnormal profits. We say:

To Carry on War.

If you make so much money as that, we propose to take part of it for the purpose of carrying on the war. That is the principle of the bill, and even if it had the effect of preventing capital from coming into this country in war time, which I do not admit, I would still say that it is a proper tax, because it is more important that this money should be raised in war time than that even capital should come in. What about after the war? This tax is limited to three years. I am free to say that an excess profits tax is not a good tax in times of peace because I think then it would have the effect which my hon. friend suggests, and that effect would not be good for the country. But this tax is limited by its terms to a three-year period. If this war goes on—and I confess it looks to me as if it would go on—it might go on for another year, or even longer—then we would have to consider broadening the basis of our taxation. We might have to resort to other modes of taxation, some of which were suggested in this House when the Excess Profits War Tax Bill was under consideration last year, and which have been mentioned in the course of this debate. But it is not necessary to consider these now. We are taking one step at a time in our taxation, and I submit that it is sound. When the war broke out, it would have been a great mistake to have suddenly developed a formidable scheme of taxation. The effect would have been bad upon industry and upon the public.

Cannot Estimate Results.

This new taxation measure will apply more particularly to the larger profits of the third accounting period, and so substantial sums should be realized from it. It is not possible to make even a rough estimate, as we have no figures to which to apply the 50 per cent. and 75 per cent. taken from the excess profits.

The soundest criticism I have heard of this measure has been that it may take so large a sum from a firm or company that the company may not be able to raise that amount of money readily, and that it may, to a certain extent, make the position of the company unliquid. That is the soundest argument I have heard against this measure, but I do not agree that the amount taken, although large, is unduly large in war time.

My hon. friend from Halifax (Mr. A. K. Maclean), who, as usual, made a very temperate speech and put forward his ideas and criticisms very fairly, raised the question why we did not adopt the English policy of establishing the average earnings of a company for the three years preceding the war, and then take only a portion of that excess profit earned now over the average profit earned for those three years. We gave that matter a great deal of consideration, and discussed the English income tax with many who are subject to it.

Is a Better Tax.

I believe that our tax is a better tax, and that is the opinion of many from the United Kingdom to whom I have spoken about it. What has happened in the United Kingdom is this: those companies that did the largest business before the war, that were earning 25 per cent., 30 per cent., or 40 per cent. are in many cases earning that amount to-day and yet are paying nothing. Their average, we will say, was 25 per cent. or 30 per cent. before the war. Since the war they may earn only the same amount, and yet they are going scot free. But companies that earned only 4 per cent. or 5 per cent. before the war, which perhaps had a run of hard luck, or were engaged in a business that was not thriving at that particular time, but are now making perhaps 40 per