Banks and the Income Tax

The increase in the income tax rate will have some effect in increasing the amounts which corporations in general are required to pay, but it does not appear that it will at once affect the taxes of the chartered banks

By H. M. P. ECKARDT.

It is generally recognized that the income tax as applied to the 1918 net earnings of corporations will result in a considerable reduction of the amount collected from corporations under the excess profits tax. In an article on "Income and Other War Tax Measures," in the April 1918, number of the Canadian Bankers' Association, Mr. J. L. Payne says "it may be assumed with some degree of probability that the income tax will very largely displace the business profits tax. This will inevitably follow the right which Government has reserved of applying whichever form of taxation will yield the better result to the treasury. There are cases in which the business tax will certainly be given effect; but after testing out a considerable number of actual instances it became evident that the income tax will fall on the majority of tax payers." The raising of the tax rate upon corporations, from 4 per cent of net profits to 6 per cent, will make the income tax liability of many corporations greater than the liability of the same corporations under the excess profits tax. To illustrate the point, take the case of a company with $100,000 invested capital returning net profits of $9,000. Applying the excess profits tax, which calls for 25 per cent of profits in excess of 7 per cent on capital, the company's tax liability would be 25 per cent of $2,000, or $500. With the income tax at 4 per cent as originally provided, the liability under that tax would be $360. The Government under those circumstances would apply the excess profits tax because it would yield $140 more revenue. With the income tax at 6 per cent, however, the tax liability of the company above referred to would become $540, as against $500 resulting from the excess profits impost; and the Government in this instance would choose to apply the income tax.

Although the increase of the income tax rate will thus have some effect in increasing the amounts which corporations in general are required to pay, it does not appear that it will at once affect the taxes of the chartered banks, except perhaps in one or two instances. This is because, early in the war, the banks were subjected to special taxation in the form of a 1 per cent impost on their ordinary or uncovered note circulation. This tax has practically resolved itself into a 1 per cent tax on the paid-up capital of the banks — as the ordinary note issues, which are limited to the paid up capital, have latterly been right up to the limit throughout the whole year. The fact of the matter is that the two principal taxation measures since put into effect against corporations in general — the excess profits tax and the income tax — have not been as severe as the special circulation tax as applied to the banks in the first instance. That is to say nearly all the banks are required to contribute more under the circulation tax than they would be called for under either of the new measures. So, as corporations are not required to pay more than one of the special taxes, it has happened that the circulation tax, which produced the best results in the case of the banks generally, was applied to them.

The bank annual reports issued in 1917 contain only one item of appropriation for the business profits tax, and this was made by the Weyburn Security Bank. The Weyburn Bank appropriated $7,582 for business profits tax and $3,597 for circulation tax —$11,180 in all. This gross amount apparently represented the business profits tax, part of it being shown in the form of circulation tax. Net profits of this bank in 1916 were $82,149, or 17.21 per cent of average capital and rest; and in 1917 the net profits, $74,274, represented 12.57 per cent of capital and rest.

The following table shows the net earnings of the Canadian banks as shown in the latest annual statements, also the 7 per cent exemption as calculated upon the capital plus rest plus profit and loss balance, and the amount of circulation tax. From this table it will be possible to get a conception of the effect of the 6 per cent income tax, as applied to banks, and of the effect of the excess profits tax:

Bank.	Net Profits.	Exemption 7 p.c. of Capital Investment.	Circulation Tax.
Montreal	$2,477,970	$2,356,542	$160,000
Nova Scotia	1,295,316	1,334,216	65,000
British	668,003	882,913	48,667
Toronto	802,920	808,871	49,403
Molsons	615,515	626,627	40,000
Nationale	417,622	284,197	20,000
Merchants	1,120,309	1,009,490	70,000
Provinciale	207,484	123,863	10,000
Union	763,464	595,463	50,000
Commerce	2,637,555	2,088,245	150,000
Royal	2,327,979	1,923,317	128,000
Dominion	1,065,062	937,510	60,000
Hamilton*	478,818	457,269	30,000
Standard	649,546	565,725	33,891
Hochelaga	565,433	542,151	40,000
Ottawa	616,239	619,109	40,000
Imperial	1,117,818	1,061,541	67,598
Home	217,059	178,465	19,429
Nor. Crown	208,608	164,476	14,292
Sterling	152,666	110,110	11,989
Weyburn	74,274	39,517	3,597

*Bank of Hamilton's last report was for 15 months ending February, 1918—the profits here shown represent the proportionate amount for 12 months.

It will be seen that there are not many cases in which the net profits exceed the 7 per cent exemption; and it is to be noted that the net profits as shown above, are the amounts declared by the banks before making sundry entries for depreciation, contributions, etc. The 6 per cent income tax would apply to the balance of net profits remaining after deducting the debt items allowed by the Finance Minister. There has been no official public statement as to the items which the banks are permitted to deduct for income tax and excess profits tax purposes. There is no doubt regarding the contributions to the Patriotic Fund and Red Cross. Other special contributions, such as to Halifax Relief Fund, would perhaps have to be considered separately or individually. Apparently the deduction of pension fund contributions would be permitted. Also one would think that appropriation for writing down bank premises should be allowed — providing the Minister considered it to fairly or reasonably represent the decrease in value of the buildings. Since the banks' business consists pirncipally of discounting paper for merchants, manufacturers, farmers, etc., it certainly appears that losses from bad debts should be deducted. Most of these deductions are made prior to the declaration of net profits, but there are occasional large amounts written off specially after profits have been declared. These, perhaps, would be subject to discussion with the Minister. Insofar as they represented losses experienced during the year, one would think the banks were entitled to deduct them. Conceivably the Department of Finance might take a different attitude in regard to the appropriations for depreciation of bond investments — it might be argued that if the banks are allowed to deduct paper losses in years of declining prices, they should on the other hand include in their taxable income the paper profits made in years of rising prices.

Owing to these uncertainities — as to the items which should be deducted from the declared profits of the individual banks — the above table does not contain a calculation of the 6 per cent income tax and of the excess profits tax. The 6 per cent income tax, be it noted, applies to the net earnings of 1918, and the profits in the above exhibit are those of 1917. If the 6 per cent rate had been applicable to the 1917 profits, allowing for deductions as suggested herein, there would be only three banks with income tax liability in excess of circulation tax, and the margin is very small in each case. A substanial general increase of net profits in 1918, however, might bring in a number of banks as contributories under the income tax. The excess profits tax as applied to the 1917 earnings, would bring in the Weyburn, and possibly another small bank. The others apparently are not affected.

Distribution of Feed for Live Stock

Ottawa, May 20.

Frequent statements appear that mills are insisting upon dealers buying large amounts of flour in order to get feed. This is not the case, and has not been for some time. The mills are able to sell all the flour they can make of export to the Allies, for cash, and at a price equivalent to that allowed by the Canada Food Board to be charged to the Canadian trade, and there is no necessity for attempting to force sales in Canada, as otherwise might be the case, for feed cannot be made unless flour is made and can be sold.

The Canada Food Board, the Feed Branch of the Department of Agriculture and the millers have been working together for months upon the very difficult problem of the fairest method of distributing bran and shorts. The demand in Canada for these feeds is many times the total output of Canadian mills and comes from all parts of the country. The prices fixed for bran and shorts have made them relatively cheaper than other feeds, such as oats and barley, and this has increased the demand and, moreover, in many parts of the country, oats and barley were a short crop last year, as was also hay.

EXTRACTION IS LENGTHENED.

The extreme need of our Allies in Europe for every pound of flour and every bushel of wheat that could be spared has necessitated the lengthening of the extraction in milling. Under ordinary conditions about 270 pounds of wheat would be used to make 196 pounds of flour, and allowing 3 pounds for waste there would remain 71 pounds of offal, but about 10 pounds of the lower grade would be added to the shorts to make middlings so that there would be a total of about 81 pounds of feed produced. **Under the Order now in force the mills must make 196 pounds of flour out of 258 pounds of wheat and cannot turn any back into the shorts, so that to-day only 59 pounds of feed is made in the process of grinding a barrel of flour and the richer feeds cannot be made at all.** Taking an equal amount of wheat in each case, this means that almost 25 per cent less feed is being made than before, which, of course, has made the feed problem still more difficult.

NO FINANCIAL OBJECT.

It is entirely out of the question for the mills, under these conditions, to ship full carloads of bran and shorts to meet the demand for feed without causing users at other points to suffer. It would make no difference to the miller whether he sold in full carloads or in less than carloads, for his price to the trade is fixed at the same amount per ton in both cases, but the best and fairest method of distribution has required shipment in smaller quantities. If a dealer does not require flour or some other cereal produce to fill a car, this, of course, involves the payment by the dealer of the higher freight rate charged upon l. c. l. shipments. This difference in freight may run from $1.00 to $10.00 per ton, according to distance. Dealers are naturally anxious to avoid this extra cost, which might put them at a disadvantage as compared with competitors in the same district who could fill a mixed car, and although there is no extra profit to them the millers do not desire their customers to be at a disadvantage if they need oats, barley, oatmeal or flour which could be used to fill the car. **There is, however no such thing as compulsion on the part of the miller nor any financial object on his part in insisting, since he can make no more money by doing so and already has a bigger market for all his products than he can fill.**

NEW REGULATIONS IN FORCE.

The critical condition of food supplies for the Allies during the next few months has led the Canada Food Board to pass additional orders affecting wheat and flour. It has been made illegal for farmers, or anyone else, to use any millable wheat for feed for any kind of animals. Consumers are prohibited from accumulating stocks of flour beyond their actual current needs and must return to dealers any excess they may have been hoarding, and dealers must report their excess stocks which will be returned to the millers or disposed of as the Canada Food Board directs.