

in principle most nearly approximates ability to pay. We realize that increases in indirect taxes disguise the burdens imposed by the war but they are much more likely to distribute these burdens harshly and unfairly. While increases in such taxes may eventually be necessary, we are striving in this budget to deal with the situation (except in the case of particular commodities or where exchange considerations make special measures necessary) by a direct call on our citizens graded according to their means and responsibilities. We believe that a straightforward assessment of the contribution to the common cause will be loyally accepted and paid as a small price for the preservation of our liberties. Following out that principle, the government has, therefore, decided to submit not an increase in the sales tax but heavy increases in the direct tax on individual incomes.

In establishing the new rates, we have been limited by two insistent considerations. It would be popular, if it were practicable and possible, to pay the stupendous costs of war by imposing taxes only on those earning higher incomes. The stubborn fact is there is not enough income in the so-called higher brackets to produce more than a small fraction of the necessary revenue.

On the basis of 1938-39 figures, the latest which are available, the total of all incomes above \$50,000 was only \$35 million, and, under present rates, the tax on these would amount to \$20.5 million leaving only \$14.5 million available for provincial and municipal taxes and any further taxation by the dominion—to say nothing of living expenses and personal obligations. Similarly, in the group from \$25,000 to \$50,000, the aggregate income was only \$32 million, of which taxes at the present rates would take about \$10.8 million, leaving only \$21.2 million. Finally, it has to be noted that the total assessed income of all persons liable to income tax in the year 1938-39 was only \$730 million, and if we took from all these people the whole of their incomes in excess of \$2,000 a year we should obtain only \$114.5 million more than we would get on these incomes at existing tax rates. When we compare these disappointing amounts of aggregate income available in these various income brackets, however drastically we might tax it, with the \$700 millions and upwards of war expenditure, to say nothing of the further expenditures of \$448 million on ordinary account, it is clear that we cannot go far to meet the costs of the war simply by taxing large incomes, or even those of moderate size.

The second consideration is that the dominion is not the only taxing authority levying steeply graduated rates on large

incomes. Every province in Canada, except Nova Scotia and New Brunswick, now levies income taxes and in certain cities taxpayers must pay municipal income taxes as well as provincial income taxes. Ontario, Manitoba, and Prince Edward Island are the only provinces which allow, as a deduction from income, the tax paid to the dominion. All these authorities tax at different rates. This means that unless we are prepared to be entirely arbitrary and unfair and to set up schedules of rates which when added to the rates imposed by other taxing authorities would be nothing short of fantastic, the dominion must, in fixing its schedule of rates, take cognizance of the highest schedule of rates effective in any province. This is but an instance of the chaotic situation in the fiscal systems of Canada to which the Sirois report has drawn attention and which, I regret to say, appears to be getting worse rather than better.

There will, however, be no class in the community which will not recognize the necessity of bearing some part of the war burden. In the past our exemption limits have been considerate, to say the least. No income tax whatever has been paid by the single person receiving less than \$1,000 per year or by the married person receiving less than \$2,000 per year. In addition, the married person got a further exemption of \$400 for each child. Our rates of tax in the low and middle income groups have been low, very low indeed as compared with the rates on comparable incomes in the United Kingdom. While the increases in rates I have to propose will be substantial when expressed as a percentage of the comparatively low taxes formerly paid, the increase in the dollar amount per individual is not unduly large and will, I am confident, not be regarded as an undue burden when contributed to meet the situation which faces us all.

It is proposed that exemptions under the graduated Income Tax—that is, our present personal income tax act—which, as I have said, are at present \$1,000 for single persons and \$2,000 for married persons, be reduced to \$750 and \$1,500 respectively. The exemption for each dependent child is left, as at present, at \$400. Under the proposed rates, the taxpayer, on the first \$250 in excess of the exemption, will pay 6 per cent instead of the present initial rate of 3 per cent. On the next \$750 of income the proposed rate is 8 per cent, and on the next \$1,000 in excess of exemptions 12 per cent, and so on upwards. In the past dependence on indirect taxation has left incomes which were just above the exemption limits taxable at very low rates, and, hence, the increases are necessarily proportionately