## TAX EXEMPT BONDS

Open Letters to the Minister of Finance and Sir Robert Borden.

quate provision for the period of read-justment that must inevitably follow

ment; published in the press on August

It is remarkable and most credit-Canada that our securities stand so firmly on a 5½ p.c. basis. The present "basis" of our premier securities is not, as you errone announce, "5½ p.c.," but 5½ p.c. plus the "x" of tax-exemption, an unknown factor. But, whatever the value of this tached to the terms of any future boruntil it is fully ascertained and de-

I need hardly remind you that the cost of money borrowed by provincial governments, cities, municipalities, utilities, industries, farmers merchants, and others, is from one-half per cent. to three per cent. more than the basis fixed by the Government of Canada for its loans. The more the government pays the more everyody has to pay. It is, therefore, clearly your fundamental duty so to direct finances of the country that you the finances of the country that you many of our classess are calling out their mortgage doans and selling out their mortgage doans and selling out their municipal and industrial securities. basis. ty, and all the force and power of the serious extent because of the opporgovernment and the people should be tunity they have to invest in tax-free and security values, which has only directed to making this cost as low as Dominion securities yielding a com-

treasury is reported to have recently cases said, in reference to interest rates: the rate were raised they should minion Government securities. simply be lifting themselves by their It is to the interest of the have to pay proportionately more for new capital

The sale of bonds carrying unrestricted exemption from taxes is extravagant and unsound. Any additiontax-exempt securities cannot offset more than, at most, a quarter or a third of the direct loss arising from this method of finance.

The government securities should have priority of market and any special additional advantage which can

This applies only to the protection of the supply of money, not to the price paid for it. If the money be in he country, the government can obtain the money it requires at a fair rate If the money be not in interest. country, it cannot be obtained at price. Priority of market, restricof imports of luxuries, foreign inments, and non-essential on are among the very effective means which have been adopted different countries, at different stages during the war, with a view to practical elimination of competition with

government borrowing. In Great Britain the income tax and super-tax are effective methods of obtaining revenue from lenders of Inadvertently our government money. is about to make these taxes, in effect, not taxes on the lenders of money, but taxes on borrowers of money, and has thereby set a dangerous precedent which, unless firmly checked at once,

will cause serious loss to the Dominion treasury and unnecessary hardship to borrowers and producers of all classes have no right to gamble with the possibility of our refunding operations

a clear conception of and making adequate provision for the period of readjuster provision for the period of readjustment that must inevitably follow the return to productive occupations, not only of our army in the field, but of that large number of our citizens now engaged in war endeavor.

Wise and sound decision as to financial policy is a vital and fundamental necessity to the welfare of our country, and should have regard not only to the demands of the moment but to its effect upon the future economic life of Canada.

It is with great-reluctance, but with a deep sense of responsibility and with the strongest feeling of its grave importance, that I venture to protest against a policy which, in the light of conditions as they are, should, I feel, be immediately abandoned as harmful and unsound.

That the tax-exempt war bonds is fundamentally injurious to the economic life of Canada, is the prevailing opinion of those competent to judge of its nature and effects. In your statement, published in the press on August.

ated income tax to be effectively en- callable This matter is too serious to brook able bonds.

silence or delay. depend almost wholly upon the development of our agricultural and other natural and industrial resources. long-term 5% per cent. non-callable tax-exempt bonds should be aban-

they can invest in tax-free Dominion

ties, and may do so to an even more rected to making this cost as low as ay be reasonably possible.

The secretary of the United States casury is reported to have recently cases "x" amounts to 5% and even depreciation of values, due to a 5½ to 100 10%, making a total investment return per cent. government rate for long-The public should realize that if of 10 per cent. or 15 per cent. on Do-term bonds, alone is great enough

The situation posed great mass of 15-year 5 1/2 % non- Government of Great Britain, bid for money, then all industry will 000 more of the first and fourth loans price obtained by the government on taneously with the sale of fully forthcoming loan, without any regard notwithstanding the of our inexperienced small investors taxes for which he has not valuable conversion rights attached to ation.

you say: our refunding operations after the exemption in government finance, has war with the hope and expectation now adopted the policy of financing that if our Dominion securities are given the special privilege of tax exemption, we shall, with the cheapmoney conditions, be able to gradually reduce our annual interest charges. This would mean much to our budget in the periods succeed-

ing the war. It is reasonable to expect cheaper money conditions to follow the war, and this has been recognized by a score of nations in their war finance ing. These other nations have also recognized the advisability of reserving the right to retire their long-term

in part at par at any time after the war, and the people of Canada would undoubtedly accept this provision as available in a graduated incomis available in a graduated incomis available in a graduated incomis available.

This important feature was evidently not considered in the creation of \$246,000,000 5½ per cent. taxexempt bonds due 1937, in respect to which no outlook of prior redemption The quiestion of the wisdom of exempting from taxation the income of the war bond issues of the Dominion is still attracting a lot of attention, and The World this morning prints also of tax-exempt bonds.

In your statement you argue strong-flower infall two letters dealing therewith, addressed, to Sir Robert Borden (print the comminister) and Sir Thomas White (minister of finance) by Mit. Thomas White (minister of finance) by Mit. The World believes that the views of Mr. Killing to lend the believes that the views of Mr. Killing to lend the large had one, let the incomes from the sould do as Britain has done, let the incomes from the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the incomes for the sould do as Britain had done, let the income for the sould do as Britain had done, let the income for the sould do as Britain had done, let the income for the sould do as Britain had done, let the income for the sould have been delegated to for all the sould have been delegated to have been sould be incomedated by solicitation of also the life of the sould have been and tax free, no market, and the support and buying power of our people.

AN OPEN LETTEIR TO THE MIN.

Its Beynember, 1915.

The Hon, Sir Thomas White, K.C.M.G.

Minister of Finance, Ottawa.

Sir.—During the past four yearst The question of the wisdom of ex- now can be remedied with ease by the

democratic legislative bodies were it not for the necessities of war.

Responsibility for clear reasoning and wise decision has correspondingly increased as the obligation to secure the sanction of the responsible legislative body to each respective measure has been eliminated.

The responsibility of your department has been enormously increased by reason of the war. Public opinion has also placed upon our financial administration in no uncertain manner the responsibility not only of effectively bearing its part in the burden of carrying on the war, but of maintaining a clear conception of and making adequate provision for the period of readjustment that must inevitably follow the sent and other allied loans in the United States, as undoubtedly should have been and other allied loans in the United States, as undoubtedly should have been increased by stantial income tax had been imposed from the beginning of the war upon the importation of the war upon the importation of unurries, our United States exchange situation would have been greatly benefited and the necessity for United States financing might have been also placed upon our financial administration in no uncertain manner the responsibility not only of effectively bearing its part in the burden of carrying on the war, but of maintaining a clear conception of and making adequate provision for the period of readjustment that must inevitably follow the state of the state

tax-exempt forced. Continuation of the issue of would make it almost impossible forms of invested wealth representing forced. Continuation of the issue of would make it almost impossible tax-exempt bonds is calculated to nul-thereafter economically to change our the nerve system of the possible tax-exempt bonds is calculated to nul-

Would it not be better arbitrarily For the revenue necessary to pay off to offer premiums and secure converour accumulated war debts, and for sion of part at least of these 10 and Who knows what the exports essential to the discharge 20-year non-callable tax-exempt bonds ment may yet be forced to of our external obligations, we must into taxable bonds with a great net depend almost wholly upon the de-saving to the treasury of Canada?

this development must at all costs be doned. An unlimited issue of 51/2 per From your statement I do cent. fully taxable bonds should be exempt bonds be issued, the unknown avoided. From your statement I do not think you appreciate this fact. You say:

"I do not for a moment believe that enterprising citizens, in a country with such possibilities as ours, will be deterred from engaging in business or industrial activities because Liberty 31/2 per cent. tax-exempts, rise securities yielding a comparatively low rate of interest."

Many of our citizens are calling in bound thus be kept within reasonable

The further depreciation in property regun to be felt as a result of the minion Government securities.

The fact must be faced that indus<sup>2</sup> most vital importance to escape the own boot-straps. If interest rates trial and agricultural development further undermining influence of "x." were to be increased, it would mean will be checked and suppressed very Notwithstanding the great strain just that much more burden on the materially until such time as the pro- which this war has brought upon the should be kept sound by stabilizing callable tax-exempt bonds—which you chancellor of the exchequer and the are about to offer not only for new bankers of Great Britain, working people, banker and business man, because if the government raises its hid for money then all industry in the extent of some \$350,000,-place in the financial skill with which of earlier maturities—have advanced in market price to a premium of some 15% from the issue price. That is, before this millstone is removed from the neck of industry, there must be an appreciation in market value from the their war financing has been conappreciation in market value from the tax, but not from super-tax, simulbonds now outstanding and to be is-sued under the proposed terms of the very large inwhatever to the loan which will have come taxes imposed upon the British to be made in 1919 of perhaps \$175,- people, any purchaser of these bonds 000,000, provided the great majority has received material exemption from shall have become fully informed of the price when compared with his the respective real values of the five- neighbor, who may have bought 5 and fifteen-year bends, and of the per cent. securities subject to all tax-

their holdings of the five-year bonds of last year's loan.

What of our refunding operations?

The Australian people have subscribed for fully as many bonds percapita as the Canadian people, at the In regard to this important matter, price of par and at 4½ per cent. tax-you say:

price of par and at 4½ per cent. tax-exempt, and their government, recog-"I look forward to the period of nizing the error of the policy of tax by the issue of 5 per cent, taxable

securities. In respect of the annual interest approximately \$40,000,000 on \$750,000. 000 of domestic issues now outstanding, you say:

"It is extremely improbable that we should derive more than \$1,000,-000, or at most \$1,500,000, additional revenue from the taxation of income derived from this body of securities."

You estimate, therefore, that on very \$40,000,000 of annual interest income of the people of Canada only \$1,000,000 to \$1,500,000-or 2 1-2 per The standard of Dominion Government credit has inadvertently been allowed to attain an unnecessarily high figure. This situation has only recently become fully appreciated by our ried out smoothly at an early and adfine notice of the figure of the figure

on the bonds from its incidence and tax, provided that each and every one of us is made to contribute justly and fairly, according to his respective ability, a liberal portion of his current

from this source are not, to say the

able as a nation, not only to earn the entire cost of the war to date, but to make a very large national increase in wealth as well." How much of these earnings and this increased national wealth has been appropriated by the government and used to defray the cost of the war? The director of public information in a recent state-ment points out that, during the toy fiscal years to March 31, 1918, there has been applied to war expenditures dinary and capital outlays, the sum of \$118,000,000.

This amount is probably less than our country will have to face each

government securities and all other knows how long the war may last Who knows how many bond issues our who knows what taxes our upon our people?

The idea of issuing any further half billion 15-year 5% per cent, non-callable tax exempt bonds the If we issue another billion or ever position will be incomparably more difficult of remedy. If "x" will add to the difficulties factor of after-war refunding. If tax exemption be firmly dealt with now the situation in respect to our forthcoming and all future loans will be clarified instead of remaining clouded and obscure.

> Further to demoralize the business of Canada or to nullify the graduated income tax by the creation of a billion dollars or more of long term noncallable bonds, bearing the rate of 5 1-2 per cent. plus "x," would be an outrage and an attempt to play upon the financial ignorance of the great majority of the people who are to be asked to subscribe for the bonds Our government policy in finance

should have been to issue our domestic loans to our own people, fully taxable at a rate of interest fixed after careful deliberation. The following matters should have been carefully considered: 1. The rate of interest paid by our

chartered banks for deposits—the government's only real and tangible competitor-having regard arge sums of money involved. 2. The compensation which should reasonably be paid by way of extra

interest for the use of money by the government for a period of years as against the interest paid on demand or short time deposits. 3. The standard so fixed as the "yield" or "basis" of government bonds vitally affects the values of all 'yield' or real estate, securities and other pro-

perty thruout the country, and that whatever rate be so fixed must have an important and fundamental inuence upon the industrial productive activities of the country for many years to come. 4. It is not necessary to make inter-

est rates unduly high in order to restrict non-essential production, other measures having been generally adopted and with success by belligerent

5. An unduly high standard or scale of interest rates will cause hardship to insurance companies, financial institutions and individuals with large holdings of long term securities acumulated prior to the war. 6. The government should reserve

power to facilitate its own refunding perations at lower interest rates after the war, by retaining the right to call at par any or all outstanding bonds at any convenient time after termination of the war. 7. Government finance should carried out with economy, and without fear of market conditions, ex-

ternal or internal. 8. Market and other conditions must be made to defer to government finance and mould themselves to meet tifiable satisfaction the results of the the government requirements. If this had been done, there can be

no question that all our war bonds cent to 3 3-4 per cent.—can be col-lected under the Income Tax Act. If at a rate to yield not exceeding 51/2



## NOTICE

## TO UNITED STATES CITIZENS IN CANADA.

By the United States Military Service Con- STATES, or TO RETURN to the United CITIZENS OF THE UNITED STATES IN CANADA, WITHIN THE AGES for the time being SPECIFIED BY THE LAWS OF THE UNITED STATES prescribing compulsory military service, except those who have diplomatic exemption, ARE MADE SUBJECT AND LIABLE TO MILITARY SERVICE IN CANADA, AND BECOME ENTITLED TO EXEMPTION OR DIS-CHARGE THEREFROM, UNDER THE CANADIAN LAWS AND REGULATIONS. The regulations governing this liability are published in the Canada Gazette (Extra) of 21st August, 1918; copy whereof may be obtained upon application through the post of the Department of Justice at Ottawa.

EXERCISE AN OPTION TO ENLIST or set out substantially as follows:enroll IN THE FORCES OF THE UNITED

vention Regulations, approved by the Gover- States; and THOSE WHO for any reason nor-in-Council on 20th August, 1918, MALE SUBSEQUENTLY BECOME LIABLE TO MILITARY SERVICE IN CANADA HAVE THIRTY DAYS FROM THE DATE of the accruing OF SUCH LIABILITY within which to exercise the like option. It is stipulated by the Convention also that certificates of diplomatic exemption may be granted within the optional periods aforesaid. EVERY CITIZEN OF THE UNITED STATES TO WHOM THE REGULATIONS APPLY is required to REPORT TO THE REGIS-TRAR under the Military Service Act, 1917, FOR THE province or DISTRICT WITHIN WHICH he is, in the manner by the regulations prescribed, WITHIN TEN DAYS AFTER THE EXPIRY OF HIS OPTIONAL PERIOD to the Director of the Military Service Branch and will be SUBJECT TO PENALTIES IF without reasonable excuse HE FAIL SO TO UNITED STATES CITIZENS of the REPORT. For the information of those description aforesaid who were IN CANADA whom it may concern Sections 3 and 4 defining ON 30th JULY, 1918, HAVE SIXTY DAYS the requirements of registration, with which FROM THAT DATE within which TO it will be necessary strictly to comply, are

## REGULATIONS

3. EVERY MALE CITIZEN OF THE UNITED STATES WITHIN THE AGES for the time being SPECIFIED IN THE LAWS of the UNITED STATES prescribing compulsory military service, not including those who have diplomatic exemption, WITH-IN TEN DAYS AFTER THE EXPIRY OF THE TIME LIMITED BY THE CONVEN-TION within which the Government of the United States may issue him a certificate of diplomatic exemption, SHALL TRULY RE-PORT TO THE REGISTRAR BY REGIS-TERED POST, and in writing which is plainly legible, his name in full, his occupation and the date of his birth; stating also whether he is single, married or a widower; and if the a child living: married, the date of his marriage; and stating moreover his place of residence and usual post office address in Canada; and, if he reside within a city or place where the streets and dwellings are named and numbered, the name and number of his street and dwelling; or if he reside in another place, the lot and concession number, section, township, range, and meridian, or other definite description whereby his place of residence may be located, having regard to the custom of the locality in which he lives: and IF WITHOUT REASONABLE EXCUSE HE NEGLECT OR FAIL TO

REPORT IN THE MANNER and with the particulars aforesaid within the time limited as aforesaid, HE SHALL BE GUILTY OF AN OFFENCE, AND SHALL BE LIABLE UPON SUMMARY CONVICTION to a penalty not EXCEEDING FIVE HUNDRED DOLLARS, AND TO IMPRISONMENT for any term not exceeding six months, and moreover he shall incur A PENALTY OF \$10.00 FOR EACH DAY after the time when or within which he should have registered during which he shall continue to be unregis-

4. EVERY UNITED STATES CITIZEN WHO 'HAS DIPLOMATIC EXEMPTION, although not otherwise subject to these regulations SHALL WITHIN TEN DAYS after the granting of the same truly REPORT TO THE REGISTRAR, in like manner and with the same particulars as required by the last preceding section; and in addition he shall embody in his report a true and complete statement of the particulars of his certificate of diplomatic exemption. NEGLECT OR FAILURE without reasonable excuse to comply with the requirements of this section SHALL CONSTITUTE AN OFFENCE PUNISH-ABLE IN THE MANNER AND BY THE PENALTIES provided in the last preceding

ISSUED BY THE DEPARTMENT OF JUSTICE, MILITARY SERVICE BRANCH.

to the government are just as willing to pay income tax on their interest to be paid out of the current income of the return of 5½ per cent. as they are to the nation. For this purpose parlia-Any considerable increase in the pay income tax on the 3 per cent. allowed them by our chartered banks. and inland revenue charges, imposed western Canadians. The minister of Tax-exemption is wrong. wrongs have never made a right. state a share of the profits earned by a war measure, as he did the enact-There is only one remedy for wrong, the business undertakings of the peo- ment of the business profits war tax.

ernment—courage to face the realities of the situation and confidence in the patriotism of the people.

which the government has to the whole-hearted co-operation of all classes of our people in the carrying on of the war, and it is in this spirit that I have ventured to bring to your that I have ventured to bring to your adding Parliament. The results observed here in keeping with the I am not insensible to the claim vinced, reflect the mature judgment of an overwhelming majority of our

and full discussion which is the essence of democratic government, I am mailing copies of this letter to the right honorable the prime minister, the members of the senate, the house and to the press.

I have the honor to be, sir. Your obedient servant,

MINISTER. 164 St. James street, Montreal September 12, 1918. Right Honorable Sir Robert Borden, P.C., G.C.M.G. Prime Minister, Ottawa.

Sir-It is now evident to the casual observer, as it has long been apparent to the thoughtful student, that money will be one of the most important factors in determining the issue of the great war in which we are engaged. As Canadians, we are filled with intense pride for the matchless achieve- try. It is perhaps not the least comments of our gallant countrymen on

efforts of our industrial and farming population in maintaining adequate the finance department to collect. supplies of munitions and food, not I observe from a recent number only for our own troops, but to no The Spectator that "the true yield of derived from accumulated wealth,

exempt when they subscribed to the bonds.

Those who will be asked to lend

to enact such legislation as to operate, the income tax will proportionately an even more cient annual revenues to enable a fair tant item in the total revenue. Two stamp taxes and demanded for the finance obtained the

> minister of finance to meet the financial necessities of the state by im-

posing an income tax.

No sound and comprehensive scheme of national taxation, intended quate proportion of our vast war tained have been in keeping with the policy pursued.

question at issue, ada's field crops alone for the years. In the hope of stimulating that free 1916 and 1917 amounted to nearly two billions of dollars, the total sum paid used in the destruction of the enemy. towards the cost of the war out of ordinary revenues during the same tie loans. period has been only \$113,000,000, or much less than has been expended by we are about to make a further is the Canadian people for pleasure automobiles since the outbreak of war. Finally the minister of finance reluctantly yielded to the demand of an enlightened public opinion and sub-AN OPEN LETTER TO THE PRIME mitted to parliament towards the close of the session of 1917 a bill providing for the imposition of a graduated income tax which has yet to become an effective source of revenue.

The recent belated prohibition of the importation of luxuries and the regulation of other imports, together with an increased tariff, are already lessening our customs revenues. The enactment of prohibitory liquor legislation will inevitably curtail our inland revenue receipts. Business profits cannot be further taxed without dislocating the industrial life of the plaint of the commercial community the battlefields of France and Flan- that this tax has not been collected ders. And we contemplate with jus- except where the willingness and anxiety of the citizen to pay has been greater than the zeas and industry of I observe from a recent number

the income tax and super-tax last year in Great Britain was as nearly as possible £240,000,000 out of a total income of £707,000,000," and it is furher stated that "after the war, when the excess profits duty, at all events in its present form, will have ceased

as to operate, the income tax will become proportionately an even more imporment increased customs duties, postage customs tariff will not be tolerated by

and that is to correct it. The cost pic.

Of correction is small; the consequences of procrastination will be directly affected the great masses of the people except as enhanced prices the people except as enhanced prices and to meet the charges on our national debt, but in the future to maintain our very existence as a solvent state. Having failed for four years to pro-

vide sufficient revenues to defray of current income a fair and penditures, recourse has been had to borrowing. We have by this method placed upon the returning citizen solfence of the Dominion, a burden of taxation that in operation involves his bankers and business men, who have given careful consideration to the being called upon to pay an undue ada's field crops alone for the years worn and the food he has consumed but for the very ammunition he has We have already made four domes-

sue of five hundred millions of 51/2 pel cent, Victory bonds. It has been announced that these

bonds are to be issued free from all income taxes, present or future, that have been or may be imposed by parliament of Canada. It is true that heretofore our war bond issues have been issued tax free and at a high rate of interest. In other countries where securities have been issued free from taxation the annual interest rate has been from 10 per cent, to 20 per cent, less than on bonds subject to taxation. In the United States the first issue of tax-free bonds was at The current issue of Liberty bonds is at 41/4 per cent., with limited income tax exemption

It is also imperative that those who end their money to the nation should do so on exactly equal terms. The rate of return to the artisan must be the same as that to the captain of industry. The farmer must be on an equality with the manufacturer. No sale of national securities should be made on terms that will result in exempting from taxation the placing a proportionately increased burden the industry and labor of the people. If tax-free securities are issued, the citizen who remained in Canada and

(Concluded on Page 9, Column 2).

A THING

So Says Against Property ov

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rday against

on Yonge stre St. Clair aver their lots, car claimed. The will confer wi understanding The board lan to fill the service comm treasurer of th The applica tones Co. for and Trinity s of the war wa McBride, whi favored it. er, was out it, was ind with being infl iderations. controller M osition he to ecided to gra-

In the course P. Gault, represaid it was not the amount of Government experience of the course of th company was its kind in Ar "We are not company, but money in the McBride. "Th the harbor from It was com uble which of a royal co ity to foot McBride, when fore the bo

lowever, as t d the bill : pher. Subseque GUNNS CO

Each contes number is end will be award few days. A were entered. which were c A remarkal test was the Easifirst, and fast Bacon, in

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R. J. Flem Railway Comp letter by Majo turned officer, the all too-pre-ing returned di in the cars, w main in their suggests that a cars bringing lic's attention. WOMEN'S

The Septem board of the pital was held the hospital, 1: Rutherford pr the superinter new nurses' r road, was now staff, and tha hospital was mpletion.

MEDA At last night odge, No. 7, Hall, it was nedals supplie ad now been ng forwarded