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The
**Federal Income
Tax**



The
**Trusts and Guarantee
Company, Limited**

Calgary

Toronto

Brantford



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The Trusts and Guarantee Company, Limited*

FOREWORD

For the convenience of our clients we have had some notes on the recent Dominion Statute prepared. We hope that these will be of assistance in explaining the general principle and application of the Act and in the preparation of the income return required by the Finance Department from every taxpayer.

Questions will arise in particular cases which these notes will not answer. In all such cases we invite correspondence and will gladly give any further assistance desired without charge or obligation of any kind. This is part of the "service" which we endeavor to render as a part of our business organization. We have also available the various forms which are required to be completed and which are referred to in this Booklet and we will be glad to supply these upon request by mail or to assist in their completion if a personal call is made at our office at 120 Bay Street, Toronto, or in Brantford.

These notes are designed for the use of individuals rather than for corporations or business associations. Accordingly, no extended reference has been made to the inter-relation of the Special War Revenue Act, 1915: The Business Profits War Tax Act, 1916: and the present Income War Tax Act, 1917. If any assistance is desired in determining the application of the Act to corporations or business associations, we will be glad to attend to any enquiries made.

DOMINION OF CANADA

The Income War Tax Act, 1917

At the last session of the Dominion Parliament an Act was passed establishing a Federal Income Tax. This is a new departure in federal taxation undertaken to provide further revenue for governmental purposes.

This Act and the tax levied by it are quite distinct from and additional to any municipal taxation of incomes.

To Whom the Act Applies

The Act applies to all persons or individuals and all syndicates, trusts or associations and all companies or corporations or their legal representatives not expressly exempted, except a business partnership. Persons carrying on business as a partnership are taxable in their individual capacity and not as a partnership.

To Whom the Act does not apply

Among others to:

(a) Any unmarried person or widow or widower without dependent children whose income is less than \$1,500 per annum; or to any other person or corporation whose income is less than \$3,000 per annum;

(b) Any religious, charitable, agricultural or educational institution, Board of Trade or Chamber of Commerce;

(c) Any labor organization or society or benevolent and fraternal beneficiary societies or orders;

(d) Any club, society or association organized and operated solely for social welfare, civic improvement, pleasure, recreation or other non-profitable purpose, no part of the income of which enures to the benefit of any stockholder or member.

The Amount of the Tax

The tax as defined by the Act is divided into two parts called the normal tax and the supertax.

The Normal tax is 4% upon all income over and above \$3,000, except in the case of unmarried persons and widows and widowers without dependent children in which cases it is 4% upon all income over and above \$1,500.

Corporations and joint stock companies, no matter how created or organized, pay the normal tax only and are not liable for the supertax.

The Supertax applies only to incomes exceeding \$6,000.00 in amount and is graded in rate in the following manner:

(a) 2% on the amount between \$6,000.00 and \$10,000.00.

(b) 5% on the amount between \$10,000.00 and \$20,000.00.

(c) 8% on the amount between \$20,000.00 and \$30,000.00.

(d) 10% on the amount between \$30,000.00 and \$50,000.00.

(e) 15% on the amount between \$50,000.00 and \$100,000.00.

(f) 25% on the amount in excess of \$100,000.00.

It will thus be seen that in the case of all individuals whose income

exceeds \$6,000.00 the normal tax and the supertax are both applicable.

A special table has been compiled and is to be found as a schedule to this booklet showing how these rates of taxation work out as applied to incomes of various amounts.

What is "Income" for the Purpose of this Act

The answer to this question is very difficult to put in concise form, and we quote first the actual language of the Act, Section 3, (1):

"For the purposes of this Act, "Income" means the annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary, or other fixed amount, or unascertained as being fees or emoluments, or as being profits from a trade or commercial or financial or other business or calling, directly or indirectly received by a person from any office or employment, or from any profession or calling, or from any trade, manufacture or business, as the case may be; and shall include the interest, dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and, whether such gains or profits are divided or distributed or not, and also the annual profit or gain from any other source; including the income from but not the value of property acquired by gift, bequest, devise or descent; and including the income from but not the proceeds of life insurance policies paid upon

the death of the person insured; or payments made or credited to the insured on life insurance endowment or annuity contracts upon the maturity of the term mentioned in the contract or upon the surrender of the contract."

First note that there is a difference here from the provision of most municipal income taxes which exempt income from real estate investments. Under this Act income from rents is included like any other earnings.

An example of the manner of application of the principle of the Act, as explained by the Finance Minister, may be of assistance.

Where income is from real estate consisting of a number of different properties some of which are revenue producing and others of which are unproductive or even an actual outlay required for their maintenance, then the net income from all these combined is the income on which the tax is calculated.

Where a man has a regular set income or salary from his occupation or business, part of which he devotes to the maintenance of real estate properties or other investments requiring expenditure for their main-

tenance, the income on which the tax is calculated is the original amount of such salary without any allowance being made for maintenance of other investments.

The Finance Minister, in the introduction of this Bill in the House of Commons, explained the question in this manner:

“The true principle of the matter is “What is a man’s income.” Everyone knows what you mean. If you ask a man on the street “What is so and so’s income,” nobody will misunderstand you. You will be told it is the amount he gets from his employer if he is employed. If on the other hand his income is derived from stocks, bonds or securities, everybody understands it is what he receives in the way of interest and dividends upon those securities. It is a commonsense matter . . . It means his income from investments after he pays any necessary outgoings in connection with those investments, whether it is house property or not, plus the income he receives in his trade, profession or calling. It is not for us to inquire what he does with his income after he gets it.”

Exemptions

In making up a statement of the income subject to tax, the following deductions and exemptions will be allowed:

(a) A reasonable allowance for depreciation or for any expenditure

of a capital nature for renewals or for the development of a business, and an allowance for the exhaustion of mines and oil or gas wells;

(b) Income which has already been taxed at the source of the income under the provisions of this Act;

(c) Amounts paid by the tax payer during the year to Patriotic and Canadian Red Cross Funds, and other patriotic and war funds approved by the Minister of Finance.

(d) The income received as dividends upon the stock or from the net earnings of any company or other person which is taxable upon this income under this Act;

(e) The income derived from any bonds or other securities of the Dominion of Canada issued exempt from any income tax imposed by the Parliament of Canada;

(f) The military and naval pay of persons who have been on active service overseas during the present war in any of the military or naval forces of His Majesty or any of His Majesty's allies.

Note:—In determining the income, the personal and living expenses are not to be taken into consideration or deducted.

Annual Return of Income to be made

On or before the 28th day of February in each year every person or corporation liable to taxation must without any notice or demand make a return to the Finance Minister of his total income in the preceding calendar year. If any person is incapable of making the return personally, it must be made by an agent or legal representative on his behalf.

Employers also are required to make a return of all persons in their employ receiving salary or remuneration which is subject to taxation and all corporations must make a return of all dividends or bonuses paid to shareholders.

All persons in whatever capacity acting having the control of the income of any tax payer (exceeding \$1,500 or \$3,000 as before indicated)

must deduct and pay the tax and make a return of such income.

After the filing of the return the Minister of Finance may make any further inquiry which he desires into the character or amount of the income of any person or corporation if not satisfied with the return made.

On or before the 30th April in each year assessment notices will be mailed by the Department to every person liable to taxation, showing the amount at which his income is assessed and the amount of the tax due.

Payment of the tax must be made to the Department within one month from the date of mailing the assessment notice, or if not paid within the month interest will be added to the amount due at the rate of seven per cent. per annum until paid.

Appeals from Assessment

At any time within twenty days from the date of mailing the assessment notice, any person who deems himself wrongfully assessed may appeal against the assessment. If no

notice of appeal is given within the twenty days mentioned, then the assessment thereupon becomes absolute and no appeal may be lodged except by special consent of the Minister of Finance.

This appeal will be considered by a Board of Referees who act as a Court of Revision and who may amend or confirm the assessment.

A further appeal is allowed to the Exchequer Court of Canada for a final determination of the assessment.

Special War Revenue Act, 1915, *(Part I)*
and the Business Profits
War Tax Act, 1916

The Act provides that tax payers are entitled to deductions from the amounts of tax due under this new Act for the year 1917 equal to the amounts paid by any tax payer for taxes due in 1917 under either of the above Acts.

How Payment is made
or collected

Payment of the tax must be made by the individual liable and not by

the employer or corporation. As above indicated, payment is to be made on or before the 30th April in each year or forthwith after the determination of any appeal. If payment is not made, the tax, together with interest and costs, may be recovered as a debt due to His Majesty.

Penalties

A penalty of One Hundred Dollars per day is provided for default in making the return of income required by this Act.

For making a false statement in any return or any information required by the Minister of Finance, a penalty is provided not to exceed Ten Thousand Dollars or six months imprisonment or both fine and imprisonment.

Period of Tax

The return to be made on or before the 28th February, 1918, is for the income during the calendar year of 1917, and the tax is the tax of 1917 although it is not collected or paid until 1918.

Extension of Time for Return

At the time this booklet goes to press the form to be used for making the returns has not yet been printed, but it is expected that a supply will be available after February 15th, and The Trusts and Guarantee Company, Limited, will be pleased to send copies of the form to any one who applies for them and to give any assistance desired in the completion of the forms.

We are credibly informed that it has been decided by the Department of Finance to extend the time for making the return of income, notice of which will doubtless appear in the newspapers.

**TABLE SHOWING APPLICATION OF
RATES OF INCOME TAX TO
SPECIFIED INCOMES**

A.

**Unmarried Persons and Widows or
Widowers without dependent Children**

Income	Normal Tax	Super- Tax	Total Tax
\$ 1,500	Exempt	...	nil
2,000	20	...	20
3,000	60	...	60
4,000	100	...	100
5,000	140	...	140
6,000	180	...	180
7,000	220	20	240
8,000	260	40	300
9,000	300	60	360
10,000	340	80	420
15,000	540	330	870
25,000	940	980	1,920

B.

All Other Persons

\$ 3,000	Exempt	...	nil
4,000	40	...	40
5,000	80	...	80
6,000	120	...	120
7,000	160	20	180
8,000	200	40	240
9,000	240	60	300
10,000	280	80	360
15,000	480	330	810
25,000	880	980	1,860

MAINTENANCE OF INCOME

Nothing is more important to every individual than the preservation of the capital which produces his income. Sooner or later in the life of every person this capital becomes his only support and the sole resource on which his dependents must rely.

Yet there is nothing more difficult in finance than the preservation of capital. Every day adds fresh evidence of the truth that it is much less difficult to produce or accumulate wealth than it is to preserve it after it has been earned.

Statistics gathered by The American Bankers Association show that of every 100 men who die, only 3 leave an estate of more than \$10,000; 15 others leave an estate of less than \$10,000; and 82 leave no income producing estate. Yet out of this 100 men at the age of 35, 10 are wealthy, 10 are in good circumstances and 40 have moderate resources. The capital which they accumulated in their prime is wasted away through bad investments.

The investment and preservation of capital is a matter for experts. The individual has his own business concerns to attend to, and his earning power to maintain. He has not the opportunity or means of keeping in touch with investment conditions or changes. The investment which is good to-day may be bad next year.

The Trusts and Guarantee Company Limited has a special Investment organization of experts of wide experience and proved success in making and dealing with investments.

Every investment which they make as agent or trustee for the Company's clients is guaranteed both as to principal and income return by the entire assets of the Company.

For a very moderate commission our experts will attend to the investment of your capital and assure you of the maintenance of your income and the preservation of your capital.

You are invited to discuss our methods with any of our officers confidentially and without charge or obligation.

THE TRUSTS AND GUARANTEE
COMPANY LIMITED

TABLE OF PROGRESS

Guaranteed Trust Funds

1907.	\$ 785,421.52
1908.	1,341,660.37
1909.	1,936,233.72
1910.	2,862,212.12
1911.	3,237,694.80
1912.	3,599,141.04
1913.	3,821,687.62
1914.	4,026,002.76
1915.	4,266,807.41
1916.	4,601,525.67
1917.	5,214,292.67

Estates Trust Funds

1907.	1,851,013.16
1908.	2,325,662.42
1909.	3,251,479.94
1910.	3,801,378.66
1911.	4,579,046.73
1912.	5,196,383.42
1913.	6,198,496.39
1914.	6,800,266.71
1915.	7,453,489.51
1916.	8,342,816.92
1917.	9,083,895.24

**THE
TRUSTS AND GUARANTEE
COMPANY, LIMITED
OF TORONTO**

ACTS AS

Executor and Trustee under Wills.

Liquidator and Assignee.

**Trustee under Mortgages and other
instruments.**

Agent for Investment of Moneys.

**Agent for the Collection of Interest
and Dividends.**

**Agent for the Sale of Real Estate
and Management of Properties.**

**Transfer Agent and Registrar of the
Shares or Bonds of Corporations.**

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